

**HOLLENBECK PALMS
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021**



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**HOLLENBECK PALMS
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hollenbeck Palms
Los Angeles, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hollenbeck Palms (Hollenbeck), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hollenbeck Palms as of June 30, 2022 and 2021, results of its operations 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hollenbeck Palms and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hollenbeck Palms' ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hollenbeck Palms' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hollenbeck Palms' ability to continue as a going concern for a reasonable period of time.

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



CliftonLarsonAllen LLP

Glendora, California
October 14, 2022

**HOLLENBECK PALMS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021**

ASSETS	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 3)	\$ 1,077,917	\$ 933,031
Accrued Interest Receivable	67,991	63,073
Due from Residents and Third-Party Payors, Less Allowance	1,501,494	1,491,076
Pledges and Other Contributions Receivable (Note 5)	100,000	102,000
Prepaid Expenses and Other Assets	454,439	384,960
Investments (Note 6)	<u>33,757,947</u>	<u>38,844,301</u>
Total Current Assets	36,959,788	41,818,441
NONCURRENT ASSETS		
Assets Restricted or Designated for Investment in Long-Term Purposes (Note 4)	10,106,834	11,279,502
Pledges and Other Contributions Receivable Less Discount (Note 5)	-	1,982
Property and Equipment, Net (Note 7)	<u>39,765,098</u>	<u>38,501,500</u>
Total Noncurrent Assets	<u>49,871,932</u>	<u>49,782,984</u>
 Total Assets	 <u>\$ 86,831,720</u>	 <u>\$ 91,601,425</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 4,181,068	\$ 3,967,771
Accrued Interest Payable	521,397	420,112
Deferred Revenue from Entrance Fees (Note 2)	1,690,440	1,729,914
Assigned Assets, Net (Note 2)	3,872,393	3,783,230
Other Loans Payable (Note 10)	192,954	230,119
Bond Payable, Net - Current Portion (Note 10)	<u>1,072,903</u>	<u>1,032,903</u>
Total Current Liabilities	11,531,155	11,164,049
NONCURRENT LIABILITIES		
Deferred Revenue from Entrance Fees (Note 2)	2,404,643	1,959,783
Other Loans Payable (Note 10)	5,043,047	3,799,827
Bond Payable, Net (Note 10)	<u>22,875,308</u>	<u>23,944,063</u>
Total Noncurrent Liabilities	<u>30,322,998</u>	<u>29,703,673</u>
 Total Liabilities	 41,854,153	 40,867,722
NET ASSETS (Note 2 and 13)		
Without Donor Restrictions	43,124,512	46,735,421
With Donor Restrictions	<u>1,853,055</u>	<u>3,998,282</u>
Total Net Assets	<u>44,977,567</u>	<u>50,733,703</u>
 Total Liabilities and Net Assets	 <u>\$ 86,831,720</u>	 <u>\$ 91,601,425</u>

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	<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)	\$ 15,467,949	\$ -	\$ 15,467,949
Investment Income, Including Realized Gains (Note 6)	4,868,301	141,898	5,010,199
Donor Contributions	321,011	345,447	666,458
Grants	71,386	-	71,386
Resident Contributions - Assigned Assets Released (Note 2)	2,047	-	2,047
Other	170,888	-	170,888
Net Assets Released from Restriction	1,476,994	(1,476,994)	-
Total Revenues, Gains, and Other Support	<u>22,378,576</u>	<u>(989,649)</u>	<u>21,388,927</u>
EXPENSES			
Residential	6,290,075	-	6,290,075
Assisted Living	1,254,219	-	1,254,219
Skilled Nursing	8,107,986	-	8,107,986
Memory Care	399,545	-	399,545
General and Management	4,151,968	-	4,151,968
Fundraising	204,562	-	204,562
Total Expenses	<u>20,408,355</u>	<u>-</u>	<u>20,408,355</u>
GAIN (LOSS) FROM OPERATIONS	1,970,221	(989,649)	980,572
OTHER INCOME (LOSS)			
Unrealized Gain (Loss) on Investments (Note 6)	(5,215,986)	(1,155,578)	(6,371,564)
Total Other Income (Loss)	<u>(5,215,986)</u>	<u>(1,155,578)</u>	<u>(6,371,564)</u>
DEFICIENCY OF REVENUES OVER EXPENSES	(3,245,765)	(2,145,227)	(5,390,992)
CHANGE IN PENSION LIABILITY (Note 8)	<u>(365,144)</u>	<u>-</u>	<u>(365,144)</u>
CHANGE IN NET ASSETS	(3,610,909)	(2,145,227)	(5,756,136)
Net Assets - Beginning of Year	<u>46,735,421</u>	<u>3,998,282</u>	<u>50,733,703</u>
NET ASSETS - END OF YEAR	<u>\$ 43,124,512</u>	<u>\$ 1,853,055</u>	<u>\$ 44,977,567</u>

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 (Loss)	<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 FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022**

	Residential	Assisted Living	Skilled Nursing	Memory Care	General and Management	Fundraising Expenses	Total
Salaries and Wages	\$ 1,556,817	\$ 811,172	\$ 4,139,112	\$ 280,101	\$ 1,237,348	\$ 151,328	\$ 8,175,878
Pension	20,113	10,480	53,475	3,619	14,174	1,955	103,816
Employee Benefits	367,701	191,589	977,607	66,156	259,139	35,742	1,897,934
Payroll Taxes	130,022	67,747	345,689	23,393	91,633	12,639	671,123
Legal	-	-	-	-	79,176	-	79,176
Accounting	-	-	-	-	113,129	-	113,129
Professional and Contract Services	834,251	-	379,991	14,400	334,456	533	1,563,631
Repairs and Maintenance	35,785	-	4,341	-	1,417	26	41,569
Activities	61,679	-	14,802	-	-	-	76,481
Miscellaneous	308,552	140,968	97,351	1,628	428,483	139	977,121
Advertising	-	-	-	-	128,825	-	128,825
Office Expenses	-	-	-	-	81,624	-	81,624
Occupancy	789,288	-	86,271	-	20,415	744	896,718
Travel	15,832	-	6,681	-	36,922	15	59,450
Conferences	-	-	2,260	-	19,337	-	21,597
Bond Interest and Amortization	-	-	-	-	1,032,605	-	1,032,605
Loan Interest	-	-	-	-	113,626	-	113,626
Members' Interest	-	-	-	-	114,733	-	114,733
Other Interest	-	-	-	-	5,406	-	5,406
Depreciation	1,147,132	-	428,257	-	29,671	1,082	1,606,142
Insurance	380,779	-	41,620	-	9,849	359	432,607
Medical Expenses	-	32,263	1,273,316	10,248	-	-	1,315,827
Food Expenses	642,124	-	257,213	-	-	-	899,337
Total	<u>\$ 6,290,075</u>	<u>\$ 1,254,219</u>	<u>\$ 8,107,986</u>	<u>\$ 399,545</u>	<u>\$ 4,151,968</u>	<u>\$ 204,562</u>	<u>\$ 20,408,355</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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Residents	\$ 13,849,564	\$ 12,645,594
Entrance Fees Received from Residents	2,543,500	980,103
Contributions from Donors and Grants	392,397	503,127
Investment Income Received	5,005,281	4,016,154
Other Cash Revenues	170,888	162,702
Cash Paid to Suppliers and Employees	(17,876,201)	(17,058,603)
Interest Paid	(900,075)	(1,047,409)
Interest Paid to Members	(114,733)	(114,186)
Net Cash Provided by Operating Activities	3,070,621	87,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Sold or Matured	14,413,858	11,906,111
Investments Purchased	(15,901,766)	(14,173,238)
Capital Expenditures	(2,869,740)	(4,378,566)
Net Cash Used by Investing Activities	(4,357,648)	(6,645,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Capital	345,447	876,994
Entrance Fee Refunds	(434,955)	(40,000)
Proceeds from Construction Loan	1,519,921	3,933,828
Payment of Long-Term Debt	(1,373,866)	(1,027,619)
Net Cash Provided by Financing Activities	56,547	3,743,203
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,230,480)	(2,815,008)
Cash and Cash Equivalents (Including Designated and Restricted) - Beginning of Year	4,183,638	6,998,646
CASH AND CASH EQUIVALENTS (INCLUDING DESIGNATED AND RESTRICTED) - END OF YEAR	\$ 2,953,158	\$ 4,183,638
Cash and Cash Equivalents	\$ 1,077,917	\$ 933,031
Cash Restricted or Designated for Investment in Long-Term Purposes	1,875,241	3,250,607
Total	\$ 2,953,158	\$ 4,183,638

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ (5,756,136)	\$ 9,119,235
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,606,142	1,556,700
Interest Expense - Debt Issuance Costs	31,245	31,245
Earned Entrance Fees	(1,544,459)	(1,872,080)
Bad Debt Provision/Write-Off	88,887	(98,146)
Forgiveness of Paycheck Protection Program Loan	-	(1,479,100)
Unrealized (Gain) Loss on Investments	6,371,564	(5,504,167)
Increase (Decrease) in Pension Liability	365,144	(1,161,701)
Contributions for Financing Purposes	(345,447)	(876,994)
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable	(4,918)	(10,423)
Pledges Receivable	3,982	(99,989)
Amounts Due from Residents and Third-Party Payors	(99,305)	(71,267)
Prepaid Expenses and Other Current Assets	(69,479)	16,242
Accounts Payable and Accrued Expenses	(151,847)	37
Accrued Interest Payable	101,285	(16,309)
Deferred Revenue - Grant	-	(416,829)
Deferred Revenue from Entrance Fees	2,384,800	918,263
Assigned Assets Liability	89,163	52,765
Net Cash Provided by Operating Activities	\$ 3,070,621	\$ 87,482

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 33 memory care beds, and 59 skilled nursing beds. As of June 30, 2022 and 2021, the total number of residents was 185 and 178, 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, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (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, 2022 and 2021, respectively, uninsured, uncollateralized deposits were \$1,503,880 and \$1,470,463.

Hollenbeck also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation (SIPC) limits. At June 30, 2022 and 2021, respectively, unsecured brokerage deposits were \$1,149,420 and \$1,075,870. 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, 2022 AND 2021**

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 \$2,047 for 2022 and \$77,548 for 2021. Assigned assets were \$3,872,393 and \$3,783,230 as of June 30, 2022 and 2021, 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 2022 and 2021, charity care, which is based on estimated cost per day in excess of service fees received, amounted to \$765,117 and \$1,095,211, 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 \$4,095,083 and \$3,689,697 as of June 30, 2022 and 2021, 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, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees (Continued)

Entrance fee refunds were \$434,955 and \$40,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, there were \$-0- and \$158,700, 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). 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, 2022 AND 2021**

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, 2022 and 2021, Provider Relief Fund Grants (PRF) awarded by the Department of Health and Human Services (HHS), of \$60,387 and \$253,537, respectively, were received. PRF grants are subject to audit if not spent in accordance with the terms and conditions of the grant. As of June 30, 2022 and 2021, respectively, management believes all conditions and restrictions have been met.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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 unamortized deferred revenue. If the estimated obligation exceeds the unamortized deferred revenue, a liability is recorded with the corresponding charge to income. As of June 30, 2022 and 2021, the estimated obligation is less than the balance of deferred revenue. The obligation is calculated assuming a range in discount rates from 4% to 10% for June 30, 2022 and 2021.

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 \$411,789 and \$443,034 at June 30, 2022 and 2021, respectively. Amortization expense totaled \$31,245 for both years ended June 30, 2022 and 2021. 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 \$6,687 and \$22,332 in 2022 and 2021, 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, 2022 AND 2021

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.

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 14, 2022, which is the date these financial statements were available to be issued.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 1,077,917	\$ 933,031
Accrued Interest Receivable	67,991	63,073
Accounts Receivable	1,501,494	1,491,076
Short-Term Pledges	100,000	102,000
Investments	<u>33,757,947</u>	<u>38,844,301</u>
Total Financial Assets	36,505,349	41,433,481
Less Assets Unavailable for General Expenditure Within One Year Due to:		
Restricted by Donor with Time or Purpose Restrictions	(734,285)	(2,347,965)
Restricted by Contractual Arrangements	<u>(4,242,010)</u>	<u>(4,138,324)</u>
Total	<u>\$ 31,529,054</u>	<u>\$ 34,947,192</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.

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

	<u>2022</u>	<u>2021</u>
Building Projects - Board Designated	\$ 2,419,515	\$ 2,962,293
Capital Projects - Donor Restricted	63,520	876,994
Technology - Donor Restricted	281,927	-
Construction Loan Collateral	5,702,125	5,804,299
Debt Service Reserves - Board Designated	866,424	862,593
Net Assets Held in Perpetuity	<u>773,323</u>	<u>773,323</u>
Total	<u>\$ 10,106,834</u>	<u>\$ 11,279,502</u>
Cash Restricted or Designated for Long-Term Purposes	\$ 1,875,241	\$ 3,250,607
Investments	<u>8,231,593</u>	<u>8,028,895</u>
Total	<u>\$ 10,106,834</u>	<u>\$ 11,279,502</u>

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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.% and 0.89% for 2022 and 2021, 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:

	2022	2021
In One Year or Less	\$ 100,000	\$ 102,000
Between One and Five Years	-	4,000
Gross Unconditional Pledges Receivable	100,000	106,000
Less: Discount on Pledges Receivable	-	(2,018)
Net Pledges Receivable	\$ 100,000	\$ 103,982

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.

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 INVESTMENTS (CONTINUED)

The composition of investments at June 30 is as follows:

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Cash and Money Market (N/A)	\$ 136,856	\$ -	\$ -	\$ -
Mutual Funds (Level 1)	4,003,661	4,003,661	-	-
Exchange Traded Funds (Level 1)	177,970	177,970	-	-
U.S. Treasury Securities (Level 1)	7,629,532	7,629,532	-	-
Stocks (Level 1)	21,372,516	21,372,516	-	-
Corporate Bonds (Level 2)	6,828,973	-	6,828,973	-
Mortgage-Backed Securities (Level 2)	735,055	-	735,055	-
Municipal Bonds (Level 2)	943,723	-	943,723	-
Annuity and Life Insurance Policies (N/A)	159,423	-	-	-
Oil Interest (Level 3)	1,831	-	-	1,831
Total	<u>41,989,540</u>	<u>\$ 33,183,679</u>	<u>\$ 8,507,751</u>	<u>\$ 1,831</u>
Less: Amounts Restricted or Designated for Investment in Long-Term Purposes	8,231,593			
Total Investments	<u>\$ 33,757,947</u>			

	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	<u>46,873,196</u>	<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>			

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, 2022 and 2021 are composed of the following:

	2022	2021
Dividend and Interest Income	\$ 925,425	\$ 849,145
Realized Gains on Sales of Investment, Net	4,174,958	3,267,617
Less: Fees	(90,184)	(90,185)
Net Investment Income Included in Operations	<u>5,010,199</u>	<u>4,026,577</u>
Unrealized Gains (Losses)	(6,371,564)	5,504,167
Net Investment Income (Loss)	<u>\$ (1,361,365)</u>	<u>\$ 9,530,744</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022 and 2021 consist of the following:

	2022	2021
Land	\$ 11,086	\$ 11,086
Buildings and Improvements	60,076,978	53,181,245
Furniture and Equipment	5,703,530	5,394,665
Vehicles	334,426	315,010
Cemetery Lots	21,326	21,326
Total	66,147,346	58,923,332
Less: Accumulated Depreciation	(26,444,884)	(24,953,395)
Total	39,702,462	33,969,937
Construction in Progress	62,636	4,531,563
Total Property and Equipment	\$ 39,765,098	\$ 38,501,500

Depreciation expense for the years ended June 30, 2022 and 2021 was \$1,606,142 and \$1,556,700, respectively. Capitalized interest for the years ended June 30, 2022 and 2021 was \$161,093 and \$59,000, 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, 2022 AND 2021**

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:

	2022	2021
Change in Benefit Obligation:		
Benefit Obligation - Beginning of Year	\$ 5,729,459	\$ 6,126,875
Service Cost	208,869	210,628
Interest Cost	180,672	192,518
Benefits Paid	(541,246)	(423,972)
Actuarial (Gain) Loss	(281,875)	(376,590)
Benefit Obligation - End of Year	\$ 5,295,879	\$ 5,729,459
Change in Plan Assets:		
Fair Value of Assets - Beginning of Year	\$ 5,163,156	\$ 4,613,647
Actual Return on Plan Assets	(560,063)	973,481
Benefits Paid	(281,876)	(423,972)
Fair Value of Assets - End of Year	\$ 4,321,217	\$ 5,163,156
Funded Status	\$ (974,661)	\$ (566,303)
Amounts Recognized in the Statement of Financial Position are Included in:		
Accounts Payable and Accrued Expenses	\$ (974,661)	\$ (566,303)
Amounts Recognized in Accumulated Net Assets Without Donor Restrictions Consist of:		
Actuarial Loss	\$ 968,009	\$ 602,866
Source of Change in the Statement of Net Activities Consist of:		
Actuarial (Gain) Loss Arising During Period	\$ 365,144	\$ (1,161,701)
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 208,869	\$ 210,628
Interest Cost	180,672	192,518
Expected Return on Plan Assets	(349,499)	(312,229)
Amortization of Loss	3,173	123,858
Benefit Obligation- End of Year	\$ 43,215	\$ 214,775

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

Accumulated Benefit Obligation

The accumulated benefit obligation for Hollenbeck was \$5,295,879 and \$5,729,459 on June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Discount Rate (on Benefit Obligations)	5.00%	3.25%
Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	3.00%	2.50%

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

	<u>2022</u>	<u>2021</u>
Discount Rate (on Net Periodic Costs)	3.25%	3.25%
Expected Long-Term Rate of Return on Plan Assets	7.00%	7.00%
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, 2022 AND 2021**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

The fair value of the Plan's assets as of June 30, 2022 and 2021 by assets are as follows:

	2022	2021
Cash	\$ 1,550	\$ 214,614
Mutual Funds (Level 1)	3,874,528	4,445,612
Pooled Separate Account (Level 2)	32,233	43,672
Immediate Participation Guarantee Contract (Level 3)	412,906	459,258
Total Plan Assets	<u>\$ 4,321,217</u>	<u>\$ 5,163,156</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>
2023	\$ 388,799
2024	436,928
2025	395,380
2026	220,038
2027	228,027
2028-2032	1,978,970

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, 2023 is \$47,295.

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 \$20,615 and \$26,583 in 2022 and 2021, 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, 2022 and 2021, were \$39,988 and \$31,868, respectively.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 9 COMMITMENTS AND CONTINGENCIES

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 \$226,574 and \$519,900 in 2022 and 2021, 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 years 2022 and 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 \$60,387 and \$253,537 during the fiscal years ended June 30, 2022 and 2021, respectively, 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, 2022.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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>
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
2027	285,000	354,950	639,950
Thereafter	<u>7,465,000</u>	<u>3,439,351</u>	<u>10,904,351</u>
Total Bond Payable	8,775,000	<u>\$ 5,333,868</u>	<u>\$ 14,108,868</u>
Unamortized Cost of Issuance	(192,001)		
Net	<u>\$ 8,582,999</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, 2022 AND 2021**

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>
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
2027	995,000	433,785	1,428,785
Thereafter	10,955,000	2,119,376	13,074,376
Total Bond Payable	15,585,000	<u>\$ 4,623,897</u>	<u>\$ 20,208,897</u>
Unamortized Cost of Issuance Net	<u>(219,788)</u>		
	<u>\$ 15,365,212</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, 2022 and 2021.

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>
2023	\$ 8,311
2024	8,311
2025	8,311
2026	8,311
2027	8,313
Total	<u>\$ 41,557</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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 was from June 5, 2020 through November 30, 2021 (the Draw Period). In November 2021, Hollenbeck drew 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.

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.

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 Loan and for the principal due, interest and total payments with respect to the Loan:

<u>Fiscal Year Ended</u>	Principal Payments Due Within Fiscal Year	Interest Components Due Within Fiscal Year	Total Payments
2023	\$ 184,643	\$ 259,722	\$ 444,365
2024	193,875	250,490	444,365
2025	203,569	240,796	444,365
2026	213,747	230,618	444,365
2027	224,435	219,930	444,365
Thereafter	4,174,175	1,602,570	5,776,745
Total	<u>\$ 5,194,444</u>	<u>\$ 2,804,126</u>	<u>\$ 7,998,570</u>

The loan collateral is invested in cash and U.S. Treasury Securities with a total fair market value of \$5,702,125 and \$5,804,299 as of June 30, 2022 and 2021, respectively.

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 two 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, 2022 AND 2021**

NOTE 10 LONG-TERM DEBT (CONTINUED)

Paycheck Protection Program Loan (Continued)

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on Hollenbeck's financial position.

Summary of Long-Term Debt

	June 30, 2022		
	Total	Less Current	Noncurrent
Other Loan Payable:			
Auto Loan	\$ 41,557	\$ 8,311	\$ 33,246
Construction Loan	5,194,444	184,643	5,009,801
Total	<u>\$ 5,236,001</u>	<u>\$ 192,954</u>	<u>\$ 5,043,047</u>
Bonds Payable:			
2014 Revenue Bonds	\$ 8,775,000	\$ 240,000	\$ 8,535,000
2016 Revenue Bonds	15,585,000	860,000	14,725,000
Unamortized Cost of Issuance	(411,789)	(27,097)	(384,692)
Total	<u>\$ 23,948,211</u>	<u>\$ 1,072,903</u>	<u>\$ 22,875,308</u>
	June 30, 2021		
	Total	Less Current	Noncurrent
Paycheck Protection Program Loan	<u>\$ 1,479,100</u>	<u>\$ 489,751</u>	<u>\$ 989,349</u>
Other Loan Payable:			
Auto Loan	\$ 49,868	\$ 9,004	\$ 40,864
Construction Loan	3,980,078	221,115	3,758,963
Total	<u>\$ 4,029,946</u>	<u>\$ 230,119</u>	<u>\$ 3,799,827</u>
Bonds Payable:			
2014 Revenue Bonds	\$ 9,005,000	\$ 230,000	\$ 8,775,000
2016 Revenue Bonds	16,415,000	830,000	15,585,000
Unamortized Cost of Issuance	(443,034)	(27,097)	(415,937)
Total	<u>\$ 24,976,966</u>	<u>\$ 1,032,903</u>	<u>\$ 23,944,063</u>

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 Hollenbeck's tax-exempt status.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

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 was primarily designated for the skilled nursing facility renovation project. As of June 30, 2022, related to the skilled nursing facility renovation project, proceeds were fully expended for project costs.

The secured loan of \$5,500,000 financed the memory care facility project which was completed during fiscal year 2022.

In addition, as of June 30, 2022, Hollenbeck held board-designated net assets and contributions restricted by donors, available for future project costs of \$2,764,962.

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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 12 ENDOWMENT-RESTRICTED ASSETS (CONTINUED)

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset composition by type of fund as of June 30, 2022 and 2021 consisted of donor-restricted endowment funds; restricted in perpetuity of \$773,323, for both years presented, and restricted subject to purpose restrictions of \$734,285 and \$2,347,965, respectively. Changes in endowment net assets are reported in the statements 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 Hollenbeck to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets without donor restrictions when applicable. There were no such deficiencies as of June 30, 2022 and 2021.

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:

	With Donor Restrictions
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	3,121,288
Investment Income	141,898
Net Depreciation (Realized and Unrealized)	(1,155,578)
Appropriation of Endowment Assets for Expenditure	<u>(600,000)</u>
Endowment Net Assets, June 30, 2022	<u><u>\$ 1,507,608</u></u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Endowment:		
Held in Perpetuity	\$ 773,323	\$ 773,323
Subject to Purpose Restrictions	734,285	2,347,965
Subject to Expenditure for Specific Purpose:		
Technology	281,927	-
Capital Projects	63,520	876,994
Total	<u>\$ 1,853,055</u>	<u>\$ 3,998,282</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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Independent Living	\$ 5,610,820	\$ 5,189,663
Assisted Living	1,141,990	991,585
Skilled Nursing	6,982,314	6,529,676
Memory Care	125,396	-
Entrance Fee Amortization and Processing Fees	1,607,429	1,907,691
Total Resident Service Fees	<u>\$ 15,467,949</u>	<u>\$ 14,618,615</u>

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

	<u>2022</u>		<u>2021</u>	
Patient Service Revenue:				
Medi-Cal Program	\$ 2,162,199	30%	\$ 2,340,358	34%
Medicare Program	989,840	14%	1,251,549	18%
Managed Care	481,361	7%	219,806	3%
Private Pay	3,661,908	51%	3,009,271	44%
Total Patient Service Revenue	<u>7,295,308</u>		<u>6,820,984</u>	
Less: Bad Debt Expense:				
Medi-Cal Program	(94,277)		(38,576)	
Medicare Program	(54,235)		(61,805)	
Managed Care	(81,948)		(57,719)	
Private Pay	(82,534)		(133,208)	
Total Bad Debt Expense	<u>(312,994)</u>		<u>(291,308)</u>	
Net Patient Service Revenue	<u>\$ 6,982,314</u>		<u>\$ 6,529,676</u>	

Patient service revenue is presented net of contractual adjustments.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 14 RESIDENT AND HEALTH CARE SERVICES REVENUE (CONTINUED)

Amounts due from resident and health care service agreements for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance as of July 1,	\$ 1,491,076	\$ 1,321,662
Balance as of June 30,	1,501,494	1,491,076

Amounts deferred from resident and health care service agreements for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance as of July 1,	\$ 3,689,697	\$ 4,683,514
Balance as of June 30,	4,095,083	3,689,697

The aggregate amount due from Medi-Cal, Medicare, and Managed Care at June 30, 2022 and 2021, is \$1,129,029 and \$994,203, 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>
2023	\$ 81,040
2024	83,471
2025	85,975
2026	88,554
2027	91,211
Thereafter	2,305,491
Total	<u>\$ 2,735,742</u>



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