

**HOLLENBECK PALMS
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**



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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, 2023 and 2022, 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, 2023 and 2022, 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

CliftonLarsonAllen LLP

Glendora, California
November 8, 2023

**HOLLENBECK PALMS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents (Notes 2 and 3)	\$ 1,082,601	\$ 1,077,917
Accrued Interest Receivable	71,310	67,991
Due from Residents and Third-Party Payors, Less Allowance	1,593,612	1,501,494
ERC Receivables	2,216,746	-
Other Receivables	6,243	-
Pledges and Other Contributions Receivable (Note 5)	-	100,000
Prepaid Expenses and Other Assets	505,692	454,439
Investments (Note 6)	35,103,796	33,757,947
Total Current Assets	40,580,000	36,959,788
NONCURRENT ASSETS		
Assets Restricted or Designated for Investment in Long-Term Purposes (Note 4)	8,214,780	10,106,834
Property and Equipment, Net (Note 7)	39,049,469	39,765,098
Total Noncurrent Assets	47,264,249	49,871,932
Total Assets	\$ 87,844,249	\$ 86,831,720
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 4,204,503	\$ 4,181,068
Accrued Interest Payable	489,963	521,397
Deferred Revenue from Entrance Fees (Note 2)	1,690,440	1,690,440
Assigned Assets, Net (Note 2)	3,868,660	3,872,393
Other Loans Payable (Note 10)	202,186	192,954
Bond Payable, Net - Current Portion (Note 10)	1,117,903	1,072,903
Total Current Liabilities	11,573,655	11,531,155
NONCURRENT LIABILITIES		
Deferred Revenue from Entrance Fees (Note 2)	3,230,734	2,404,643
Other Loans Payable (Note 10)	4,840,861	5,043,047
Bond Payable, Net (Note 10)	21,761,553	22,875,308
Total Noncurrent Liabilities	29,833,148	30,322,998
Total Liabilities	41,406,803	41,854,153
NET ASSETS (Note 2 and 13)		
Without Donor Restrictions	44,554,188	43,124,512
With Donor Restrictions	1,883,258	1,853,055
Total Net Assets	46,437,446	44,977,567
Total Liabilities and Net Assets	\$ 87,844,249	\$ 86,831,720

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Resident Service Fees, Including Amortization of Entrance Fees (Note 2 and Note 14)	\$ 17,045,960	\$ -	\$ 17,045,960
Investment Income, Including Realized Gains (Note 6)	3,735,581	66,678	3,802,259
Donor Contributions	384,073	19,665	403,738
Grants	122,750	-	122,750
Resident Contributions - Assigned Assets Released (Note 2)	27,051	-	27,051
Employee Retention Credit	3,315,477	-	3,315,477
Other	212,267	-	212,267
Net Assets Released from Restriction	153,896	(153,896)	-
Total Revenues, Gains, and Other Support	24,997,055	(67,553)	24,929,502
EXPENSES			
Residential	6,820,926	-	6,820,926
Assisted Living	1,402,592	-	1,402,592
Skilled Nursing	9,059,995	-	9,059,995
Memory Care	1,390,488	-	1,390,488
General and Management	4,783,980	-	4,783,980
Fundraising	196,980	-	196,980
Total Expenses	23,654,961	-	23,654,961
LOSS FROM OPERATIONS	1,342,094	(67,553)	1,274,541
OTHER INCOME (LOSS)			
Unrealized Gain (Loss) on Investments (Note 6)	(349,585)	97,756	(251,829)
Total Other Income (Loss)	(349,585)	97,756	(251,829)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	992,509	30,203	1,022,712
CHANGE IN PENSION LIABILITY (Note 8)	437,167	-	437,167
CHANGE IN NET ASSETS	1,429,676	30,203	1,459,879
Net Assets - Beginning of Year	43,124,512	1,853,055	44,977,567
NET ASSETS - END OF YEAR	\$ 44,554,188	\$ 1,883,258	\$ 46,437,446

See accompanying Notes to Financial Statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	22,378,576	(989,649)	21,388,927
EXPENSES			
Residential	6,299,996	-	6,299,996
Assisted Living	1,266,453	-	1,266,453
Skilled Nursing	8,081,141	-	8,081,141
Memory Care	404,234	-	404,234
General and Management	4,151,969	-	4,151,969
Fundraising	204,562	-	204,562
Total Expenses	20,408,355	-	20,408,355
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)	(5,215,986)	(1,155,578)	(6,371,564)
DEFICIENCY OF REVENUES OVER EXPENSES	(3,245,765)	(2,145,227)	(5,390,992)
CHANGE IN PENSION LIABILITY (Note 8)	(365,144)	-	(365,144)
CHANGE IN NET ASSETS	(3,610,909)	(2,145,227)	(5,756,136)
Net Assets - Beginning of Year	46,735,421	3,998,282	50,733,703
NET ASSETS - END OF YEAR	\$ 43,124,512	\$ 1,853,055	\$ 44,977,567

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

	Residential	Assisted Living	Skilled Nursing	Memory Care	General and Management	Fundraising Expenses	Total
Salaries and Wages	\$ 1,720,226	\$ 907,078	\$ 4,392,056	\$ 846,366	\$ 1,213,775	\$ 142,333	\$ 9,221,834
Pension	25,152	13,262	64,217	11,093	15,644	2,081	131,449
Employee Benefits	453,576	239,171	1,158,063	200,044	282,116	37,529	2,370,499
Employee Benefits - COVID	27,555	15,324	89,220	2,209	-	-	134,308
Payroll Taxes	145,346	76,642	371,099	64,104	90,403	12,026	759,620
Legal	-	-	-	-	225,532	-	225,532
Accounting	-	-	-	-	113,129	-	113,129
Professional and Contract Services	902,020	-	381,023	63,471	546,589	568	1,893,671
Professional and Contract Services - COVID		7,878	66,964	3,939	-	-	78,781
Repairs and Maintenance	53,381	-	6,895	-	2,882	44	63,202
Activities	68,057	-	12,283	-	-	-	80,340
Miscellaneous	315,302	103,824	105,314	7,622	531,250	125	1,063,437
Advertising	-	-	-	-	245,792	-	245,792
Office Expenses	-	-	-	-	67,489	-	67,489
Occupancy	873,209	-	95,444	-	22,586	823	992,062
Travel	20,714	-	8,093	-	20,086	20	48,913
Conferences	-	-	4,547	-	11,533	-	16,080
Bond Interest and Amortization	-	-	-	-	971,288	-	971,288
Loan Interest	-	-	-	-	255,875	-	255,875
Members' Interest	-	-	-	-	115,431	-	115,431
Other Interest	-	-	-	-	13,329	-	13,329
Depreciation	1,162,703	-	428,390	174,829	30,074	1,096	1,797,092
Insurance	354,816	-	38,782	-	9,177	335	403,110
Medical Expenses	-	35,600	1,519,872	11,135	-	-	1,566,607
Medical Expenses - COVID	41,470	3,813	50,004	5,676	-	-	100,963
Food Expenses	657,399	-	267,729	-	-	-	925,128
Total	<u>\$ 6,820,926</u>	<u>\$ 1,402,592</u>	<u>\$ 9,059,995</u>	<u>\$ 1,390,488</u>	<u>\$ 4,783,980</u>	<u>\$ 196,980</u>	<u>\$ 23,654,961</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
Employee Benefits - COVID	26,484	12,235	41,591	964	-	-	81,274
Payroll Taxes	130,022	67,747	345,689	23,393	91,634	12,639	671,124
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
Professional and Contract Services - COVID	-	4,692	39,884	2,346	-	-	46,922
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	-	25,525	1,137,327	10,248	-	-	1,173,100
Medical Expenses - COVID	24,959	2,045	27,717	1,379	-	-	56,100
Food Expenses	600,602	-	257,165	-	-	-	857,767
Total	<u>\$ 6,299,996</u>	<u>\$ 1,266,453</u>	<u>\$ 8,081,141</u>	<u>\$ 404,234</u>	<u>\$ 4,151,969</u>	<u>\$ 204,562</u>	<u>\$ 20,408,355</u>

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Residents	\$ 15,136,408	\$ 13,849,564
Entrance Fees Received from Residents	3,012,600	2,543,500
Contributions from Donors and Grants	1,605,554	392,397
Investment Income Received	3,798,940	5,005,281
Other Cash Revenues	212,267	170,888
Cash Paid to Suppliers and Employees	(20,092,597)	(17,876,201)
Interest Paid	(1,240,681)	(900,075)
Interest Paid to Members	(115,431)	(114,733)
Net Cash Provided by Operating Activities	2,317,060	3,070,621
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Sold or Matured	11,770,808	14,413,858
Investments Purchased	(11,636,083)	(15,901,766)
Capital Expenditures	(1,081,463)	(2,869,740)
Net Cash Used by Investing Activities	(946,738)	(4,357,648)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Capital	19,665	345,447
Entrance Fee Refunds	(252,000)	(434,955)
Proceeds from Construction Loan	-	1,519,921
Payment of Long-Term Debt	(1,292,954)	(1,373,866)
Net Cash Provided (Used) by Financing Activities	(1,525,289)	56,547
NET DECREASE IN CASH AND CASH EQUIVALENTS	(154,967)	(1,230,480)
Cash and Cash Equivalents (Including Designated and Restricted) - Beginning of Year	2,953,158	4,183,638
CASH AND CASH EQUIVALENTS (INCLUDING DESIGNATED AND RESTRICTED) - END OF YEAR	\$ 2,798,191	\$ 2,953,158
Cash and Cash Equivalents	\$ 1,082,601	\$ 1,077,917
Cash Restricted or Designated for Investment in Long-Term Purposes	1,715,590	1,875,241
Total	\$ 2,798,191	\$ 2,953,158

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,459,879	\$ (5,756,136)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,797,092	1,606,142
Interest Expense - Debt Issuance Costs	31,245	31,245
Earned Entrance Fees	(2,060,509)	(1,544,459)
Bad Debt Provision/Write-Off	(113,535)	88,887
Unrealized Loss on Investments	251,829	6,371,564
(Increase) Decrease in Pension Liability	(437,167)	365,144
Contributions for Financing Purposes	(19,665)	(345,447)
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable	(3,319)	(4,918)
Pledges Receivable	100,000	3,982
Amounts Due from Residents and Third-Party Payors	21,417	(99,305)
ERC Receivable	(2,216,746)	-
Other Receivables	(6,243)	-
Prepaid Expenses and Other Current Assets	(51,253)	(69,479)
Accounts Payable and Accrued Expenses	460,602	(151,847)
Accrued Interest Payable	(31,434)	101,285
Deferred Revenue from Entrance Fees	3,138,600	2,384,800
Assigned Assets Liability	(3,733)	89,163
Net Cash Provided by Operating Activities	\$ 2,317,060	\$ 3,070,621
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest	\$ 1,356,111	\$ 1,133,841

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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, 2023 and 2022, the total number of residents was 186 and 185, 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, 2023 AND 2022

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, 2023 and 2022, respectively, uninsured, uncollateralized deposits were \$1,503,880 and \$1,503,880.

Hollenbeck also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation (SIPC) limits. At June 30, 2023 and 2022, respectively, unsecured brokerage deposits were \$1,069,414 and \$1,149,420. 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, 2023 AND 2022**

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 \$27,051 for 2023 and \$2,047 for 2022. Assigned assets were \$3,868,660 and \$3,872,393 as of June 30, 2023 and 2022, 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 2023 and 2022, charity care, which is based on estimated cost per day in excess of service fees received, amounted to \$582,524 and \$765,117, 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 \$4,921,174 and \$4,095,083 as of June 30, 2023 and 2022, 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, 2023 AND 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees (Continued)

Entrance fee refunds were \$252,000 and \$434,955 for the years ended June 30, 2023 and 2022, 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. Entrance fees received were \$126,000 and \$0 the fiscal years ended June 30, 2023 and 2022, respectively.

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 CMS's Patient Driven Payment Model (PDPM) 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'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 PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident and Health Care Services Revenue (Continued)

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, 2023 and 2022, Provider Relief Fund Grants (PRF) awarded by the Department of Health and Human Services (HHS), of \$-0- and \$60,387, 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, 2023 and 2022, respectively, management believes all conditions and restrictions have been met.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Unamortized deferred financing costs totaled \$380,544 and \$411,789 at June 30, 2023 and 2022, respectively. Amortization expense totaled \$31,245 for both years ended June 30, 2023 and 2022. 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 \$1,028 and \$6,687 in 2023 and 2022, 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 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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

Advertising Expense

Hollenbeck Palms incurred advertising expense totaling \$245,792 and \$128,825, for the fiscal years ended June 30, 2023 and 2022, respectively. This included print and digital advertising. Advertising expenses were targeted to increase occupancy post-COVID and to market the new memory care unit.

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.

Recently Issued Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent change in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Hollenbeck adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption. There was no material impact to the financial statements as a result of the adoption of this accounting standard.

Subsequent Events

Hollenbeck has evaluated subsequent events through November 8, 2023, which is the date these financial statements were available to be issued.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 1,082,601	\$ 1,077,917
Accrued Interest Receivable	71,310	67,991
Accounts Receivable	1,593,612	1,501,494
ERC Receivable	2,216,746	
Short-Term Pledges	-	100,000
Investments	<u>35,103,796</u>	<u>33,757,947</u>
Total Financial Assets	40,068,065	36,505,349
Less Assets Unavailable for General Expenditure Within One Year Due to:		
Restricted by Donor with Time or Purpose Restrictions	(898,719)	(734,285)
Restricted by Contractual Arrangements	<u>(4,298,345)</u>	<u>(4,242,010)</u>
Total	<u>\$ 34,871,001</u>	<u>\$ 31,529,054</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>2023</u>	<u>2022</u>
Building Projects - Board Designated	\$ 594,519	\$ 2,419,515
Capital Projects - Donor Restricted	63,520	63,520
Technology - Donor Restricted	147,696	281,927
Construction Loan Collateral	5,804,811	5,702,125
Debt Service Reserves - Board Designated	830,911	866,424
Net Assets Held in Perpetuity	773,323	773,323
Total	<u>\$ 8,214,780</u>	<u>\$ 10,106,834</u>
Cash Restricted or Designated for Long-Term Purposes	\$ 1,715,590	\$ 1,875,241
Investments	<u>6,499,190</u>	<u>8,231,593</u>
Total	<u>\$ 8,214,780</u>	<u>\$ 10,106,834</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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.% for both 2023 and 2022. 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:

	2023	2022
In One Year or Less	\$ -	\$ 100,000
Between One and Five Years	-	-
Gross Unconditional Pledges Receivable	-	100,000
Less: Discount on Pledges Receivable	-	-
Net Pledges Receivable	\$ -	\$ 100,000

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, 2023 AND 2022

NOTE 6 INVESTMENTS (CONTINUED)

The composition of investments at June 30 is as follows:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Cash and Money Market (N/A)	\$ 37,798	\$ -	\$ -	\$ -
Mutual Funds (Level 1)	2,112,988	2,112,988	-	-
Exchange Traded Funds (Level 1)	195,715	195,715	-	-
U.S. Treasury Securities (Level 1)	9,676,843	9,676,843	-	-
Stocks (Level 1)	20,712,767	20,712,767	-	-
Corporate Bonds (Level 2)	6,678,773	-	6,678,773	-
Mortgage-Backed Securities (Level 2)	1,215,848	-	1,215,848	-
Municipal Bonds (Level 2)	849,503	-	849,503	-
Annuity and Life Insurance Policies (N/A)	120,919	-	-	-
Oil Interest (Level 3)	1,831	-	-	1,831
Total	<u>41,602,985</u>	<u>\$ 32,698,313</u>	<u>\$ 8,744,124</u>	<u>\$ 1,831</u>
Less: Amounts Restricted or Designated for Investment in Long-Term Purposes	6,499,190			
Total Investments	<u>\$ 35,103,795</u>			

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Cash and Money Market (N/A)	\$ 136,856	\$ -	\$ -	\$ -
Certificates of Deposit (Level 1)	4,003,661	4,003,661	-	-
Mutual 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>			

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, 2023 and 2022 are composed of the following:

	2023	2022
Dividend and Interest Income	\$ 1,007,599	\$ 925,425
Realized Gains on Sales of Investment, Net	2,886,381	4,174,958
Less: Fees	(91,721)	(90,184)
Net Investment Income Included in Operations	<u>3,802,259</u>	<u>5,010,199</u>
Unrealized Gains (Losses)	(251,829)	(6,371,564)
Net Investment Income (Loss)	<u>\$ 3,550,430</u>	<u>\$ (1,361,365)</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2023 and 2022 consist of the following:

	2023	2022
Land	\$ 11,086	\$ 11,086
Buildings and Improvements	60,523,020	60,076,978
Furniture and Equipment	6,103,284	5,703,530
Vehicles	335,439	334,426
Cemetery Lots	21,326	21,326
Total	66,994,155	66,147,346
Less: Accumulated Depreciation	(27,989,065)	(26,444,884)
Total	39,005,090	39,702,462
Construction in Progress	44,379	62,636
Total Property and Equipment	\$ 39,049,469	\$ 39,765,098

Depreciation expense for the years ended June 30, 2023 and 2022 was \$1,797,092 and \$1,606,142, respectively. Capitalized interest for the years ended June 30, 2023 and 2022 was \$0 and \$161,093, 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, 2023 AND 2022**

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>2023</u>	<u>2022</u>
Change in Benefit Obligation:		
Benefit Obligation - Beginning of Year	\$ 5,295,879	\$ 5,729,459
Service Cost	128,879	208,869
Interest Cost	255,337	180,672
Benefits Paid	(433,458)	(541,246)
Actuarial (Gain) Loss	(378,263)	(281,875)
Benefit Obligation - End of Year	<u>\$ 4,868,374</u>	<u>\$ 5,295,879</u>
Change in Plan Assets:		
Fair Value of Assets - Beginning of Year	\$ 4,321,217	\$ 5,163,156
Actual Return on Plan Assets	316,250	(560,063)
Benefits Paid	(378,263)	(281,876)
Fair Value of Assets - End of Year	<u>\$ 4,259,204</u>	<u>\$ 4,321,217</u>
Funded Status	<u>\$ (609,169)</u>	<u>\$ (974,662)</u>
Amounts Recognized in the Statement of Financial Position are Included in:		
Accounts Payable and Accrued Expenses	<u>\$ (609,169)</u>	<u>\$ (974,662)</u>
Amounts Recognized in Accumulated Net Assets Without Donor Restrictions Consist of:		
Actuarial Loss	<u>\$ 457,772</u>	<u>\$ 968,009</u>
Source of Change in the Statement of Net Activities Consist of:		
Actuarial (Gain) Loss Arising During Period	<u>\$ (437,167)</u>	<u>\$ 365,144</u>
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 128,879	\$ 208,869
Interest Cost	255,337	180,672
Expected Return on Plan Assets	(276,007)	(349,499)
Amortization of Loss	36,535	3,173
Benefit Obligation- End of Year	<u>\$ 144,744</u>	<u>\$ 43,215</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

Accumulated Benefit Obligation

The accumulated benefit obligation for Hollenbeck was \$4,868,374 and \$5,295,879 on June 30, 2023 and 2022, 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>2023</u>	<u>2022</u>
Discount Rate (on Benefit Obligations)	5.00%	5.00%
Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	3.00%	3.00%

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

	<u>2023</u>	<u>2022</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	3.00%	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, 2023 AND 2022**

NOTE 8 RETIREMENT PLANS (CONTINUED)

Cash Balance Pension Plan (Continued)

The fair value of the Plan's assets as of June 30, 2023 and 2022 by assets are as follows:

	2023	2022
Cash	\$ 91	\$ 1,550
Mutual Funds (Level 1)	3,903,088	3,874,528
Pooled Separate Account (Level 2)	40,078	32,233
Immediate Participation Guarantee Contract (Level 3)	315,947	412,906
Total Plan Assets	\$ 4,259,204	\$ 4,321,217

Contributions

Hollenbeck expects to contribute to the Plan the ERISA recommended amount of approximately \$232,802 in the next year.

Estimated Future Benefit Payments

The estimated future benefit payments are as follows:

Year Beginning July 1.	Amount
2024	\$ 245,061
2025	235,412
2026	221,478
2027	218,787
2028	229,146
2029-2033	2,050,921

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 \$36,535.

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 \$20,810 and \$20,615 in 2023 and 2022, 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, 2023 and 2022, were \$45,117 and \$39,988, respectively.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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 \$431,230 and \$226,574 in 2023 and 2022, 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.

Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. On December 27, 2020, the Consolidated Appropriations Act (CM) was signed into law. Among other provisions, the CM expanded the eligibility for ERC to include more entities as well as extending ERC into calendar year 2021 including the first, second and third calendar quarters. Furthermore, the refundable tax credit for the calendar year 2021 was expanded to 70% of the qualified wages. CM provided these entities the ability to retroactively recover payroll taxes from earlier in 2020 during which they were previously ineligible. This is done by retroactively applying for the credit.

Employers, including tax-exempt organizations, are eligible for the credit if they operate a trade or business during calendar year 2020 and 2021 and experience either the full or partially suspension of the operation of their trade or business during any calendar quarter due to a significant decline in gross receipts or because of governmental orders limiting commerce, travel or group meetings due to COVID-19. The credit applies to qualified wages (including certain health plan expenses) paid during this period or any calendar quarter in which eligibility requirements were met.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Employee Retention Credit (Continued)

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During the year ended June 30, 2023, Hollenbeck determined it met the compliance requirements and conditions of the Employee Retention Credit (ERC) program and recognized ERC credits of \$3,315,477.

There is a possibility that upon subsequent review the IRS could reach a different conclusion regarding Hollenbeck's ERC credits received. That could result in adjustments to amounts received. The amount of liability, if any, cannot be determined with certainty.

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.

Hollenbeck is taking appropriate actions to mitigate the negative impact. Hollenbeck received additional Provider Relief Fund grants totaling \$-0- and \$60,387 during the fiscal years ended June 30, 2023 and 2022, respectively, from the Department of Health and Human Services to assist with expenditures directly associated with operational impacts due to the COVID-19 pandemic.

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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 LONG-TERM DEBT (CONTINUED)

2014 Revenue Bonds (Continued)

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

<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>
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
2028	295,000	341,897	636,897
Thereafter	7,170,000	3,097,454	10,267,454
Total Bond Payable	<u>8,535,000</u>	<u>\$ 4,931,973</u>	<u>\$ 13,466,973</u>
Unamortized Cost of Issuance Net	<u>(176,001)</u>		
	<u>\$ 8,358,999</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.

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>
2024	\$ 895,000	\$ 534,518	\$ 1,429,518
2025	925,000	502,029	1,427,029
2026	955,000	468,452	1,423,452
2027	995,000	433,785	1,428,785
2028	1,025,000	397,667	1,422,667
Thereafter	9,930,000	1,721,709	11,651,709
Total Bond Payable	<u>14,725,000</u>	<u>\$ 4,058,160</u>	<u>\$ 18,783,160</u>
Unamortized Cost of Issuance Net	<u>(204,543)</u>		
	<u>\$ 14,520,457</u>		

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 LONG-TERM DEBT (CONTINUED)

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, 2023 and 2022.

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>
2024	\$ 8,311
2025	8,311
2026	8,311
2027	8,312
Total	<u>\$ 33,245</u>

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.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 LONG-TERM DEBT (CONTINUED)

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

<u>Fiscal Year Ended</u>	<u>Principal Payments Due Within Fiscal Year</u>	<u>Interest Components Due Within Fiscal Year</u>	<u>Total Payments</u>
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
2028	235,656	208,708	444,364
Thereafter	3,938,520	1,393,862	5,332,382
Total	<u>\$ 5,009,802</u>	<u>\$ 2,544,404</u>	<u>\$ 7,554,206</u>

The loan collateral is invested in cash and U.S. Treasury Securities with a total fair market value of \$5,804,811 and \$5,702,125 as of June 30, 2023 and 2022, respectively.

Summary of Long-Term Debt

	<u>June 30, 2023</u>		
	<u>Total</u>	<u>Less Current</u>	<u>Noncurrent</u>
Other Loan Payable:			
Auto Loan	\$ 33,245	\$ 8,311	\$ 24,934
Construction Loan	5,009,802	193,875	4,815,927
Total	<u>\$ 5,043,047</u>	<u>\$ 202,186</u>	<u>\$ 4,840,861</u>
Bonds Payable:			
2014 Revenue Bonds	\$ 8,535,000	\$ 250,000	\$ 8,285,000
2016 Revenue Bonds	14,725,000	895,000	13,830,000
Unamortized Cost of Issuance	(380,544)	(27,097)	(353,447)
Total	<u>\$ 22,879,456</u>	<u>\$ 1,117,903</u>	<u>\$ 21,761,553</u>
	<u>June 30, 2022</u>		
	<u>Total</u>	<u>Less Current</u>	<u>Noncurrent</u>
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>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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.

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, 2023, 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, 2023, Hollenbeck held board-designated net assets and contributions restricted by donors, available for future project costs of \$805,735.

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, 2023 AND 2022**

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, 2023 and 2022 consisted of donor-restricted endowment funds; restricted in perpetuity of \$773,323, for both years presented, and restricted subject to purpose restrictions of \$899,476 and \$734,285, 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, 2023 and 2022.

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, 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	1,507,608
Investment Income	67,435
Net Appreciation (Realized and Unrealized)	97,756
Appropriation of Endowment Assets for Expenditure	<u>-</u>
Endowment Net Assets, June 30, 2023	<u>\$ 1,672,799</u>

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Endowment:		
Held in Perpetuity	\$ 773,323	\$ 773,323
Subject to Purpose Restrictions	898,719	734,285
Subject to Expenditure for Specific Purpose:		
Technology	147,696	281,927
Capital Projects	63,520	63,520
Total	<u>\$ 1,883,258</u>	<u>\$ 1,853,055</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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Independent Living	\$ 5,876,891	\$ 5,610,820
Assisted Living	1,007,896	1,141,990
Skilled Nursing	7,000,238	6,982,314
Memory Care	1,104,388	125,396
Entrance Fee Amortization and Processing Fees	2,056,547	1,607,429
Total Resident Service Fees	<u>\$ 17,045,960</u>	<u>\$ 15,467,949</u>

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

	<u>2023</u>	<u>2022</u>
Patient Service Revenue:		
Medi-Cal Program	\$ 2,223,424	\$ 2,162,199
Medicare Program	824,806	989,840
Managed Care	556,977	481,361
Private Pay	3,804,849	3,661,908
Total Patient Service Revenue	<u>7,410,056</u>	<u>7,295,308</u>
Less: Bad Debt Expense:		
Medi-Cal Program	(128,881)	(94,277)
Medicare Program	63,802	(54,235)
Managed Care	(97,398)	(81,948)
Private Pay	(247,341)	(82,534)
Total Bad Debt Expense	<u>(409,818)</u>	<u>(312,994)</u>
Net Patient Service Revenue	<u>\$ 7,000,238</u>	<u>\$ 6,982,314</u>

Patient service revenue is presented net of contractual adjustments.

**HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 14 RESIDENT AND HEALTH CARE SERVICES REVENUE (CONTINUED)

Amounts due from resident and health care service agreements for the years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Balance as of July 1,	\$ 1,501,494	\$ 1,491,076
Balance as of June 30,	1,593,612	1,501,494

Amounts deferred from resident and health care service agreements for the years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Balance as of July 1,	\$ 4,095,083	\$ 3,689,697
Balance as of June 30,	4,921,174	4,095,083

The aggregate amount due from Medi-Cal, Medicare, and Managed Care at June 30, 2023 and 2022, is \$968,961 and \$1,129,029, 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. Lease revenue is recognized as revenue is earned which is not materially different than the straight-line basis.

Future minimum rental revenue are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payment</u>
2024	\$ 83,471
2025	85,975
2026	88,554
2027	91,211
2028	93,947
Thereafter	2,211,544
Total	<u>\$ 2,654,702</u>

NOTE 16 RECLASSIFICATION OF PRIOR YEAR FUNCTIONAL EXPENSES

The statement of functional expenses for the fiscal year ended June 30, 2022, was adjusted to display expenses associated with COVID-19 separately by natural classification. Totals by program were reclassified as a result to conform with the allocation method for these specific expenses. The reclassification did not impact total functional expenses reported.



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