

**HOLLENBECK PALMS  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2024 AND 2023**



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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, 2024 and 2023, 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, 2024 and 2023, 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  
October 9, 2024

**HOLLENBECK PALMS  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2024 AND 2023**

<b>ASSETS</b>	<u>2024</u>	<u>2023</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Notes 2 and 3)	\$ 1,608,428	\$ 1,082,601
Accrued Interest Receivable	133,348	71,310
Due from Residents and Third-Party Payors, Less Allowance of \$194,165 and \$131,141, Respectively	2,447,778	1,593,612
ERC Receivables	-	2,216,746
Other Receivables	12,678	6,243
Prepaid Expenses and Other Assets	502,558	505,692
Investments (Note 6)	<u>35,266,080</u>	<u>35,103,796</u>
Total Current Assets	<u>39,970,870</u>	<u>40,580,000</u>
<b>NONCURRENT ASSETS</b>		
Assets Restricted or Designated for Investment in Long-Term Purposes (Note 4)	8,312,075	8,214,780
Property and Equipment, Net (Note 7)	<u>37,923,868</u>	<u>39,049,469</u>
Total Noncurrent Assets	<u>46,235,943</u>	<u>47,264,249</u>
Total Assets	<u><u>\$ 86,206,813</u></u>	<u><u>\$ 87,844,249</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 3,442,361	\$ 4,204,503
Accrued Interest Payable	467,616	489,963
Deferred Revenue from Entrance Fees (Note 2)	2,141,772	1,690,440
Assigned Assets, Net (Note 2)	3,600,227	3,868,660
Other Loans Payable (Note 10)	211,880	202,186
Bond Payable, Net - Current Portion (Note 10)	<u>1,162,903</u>	<u>1,117,903</u>
Total Current Liabilities	11,026,759	11,573,655
<b>NONCURRENT LIABILITIES</b>		
Deferred Revenue from Entrance Fees (Note 2)	2,956,236	3,230,734
Other Loans Payable (Note 10)	4,628,981	4,840,861
Bond Payable, Net (Note 10)	<u>20,602,799</u>	<u>21,761,553</u>
Total Noncurrent Liabilities	<u>28,188,016</u>	<u>29,833,148</u>
Total Liabilities	39,214,775	41,406,803
<b>NET ASSETS (Note 2 and 13)</b>		
Without Donor Restrictions	44,827,486	44,554,188
With Donor Restrictions	<u>2,164,552</u>	<u>1,883,258</u>
Total Net Assets	<u>46,992,038</u>	<u>46,437,446</u>
Total Liabilities and Net Assets	<u><u>\$ 86,206,813</u></u>	<u><u>\$ 87,844,249</u></u>

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Resident Service Fees, Including Amortization of Entrance Fees (Note 2 and Note 14)	\$ 21,272,243	\$ -	\$ 21,272,243
Investment Income, Including			
Realized Gains (Note 6)	4,228,815	68,326	4,297,141
Donor Contributions	529,820	79,714	609,534
Resident Contributions - Assigned Assets			
Released (Note 2)	2,239	-	2,239
Other	194,454	-	194,454
Net Assets Released from Restriction	52,779	(52,779)	-
Total Revenues, Gains, and Other Support	26,280,350	95,261	26,375,611
<b>EXPENSES</b>			
Residential	7,273,853	-	7,273,853
Assisted Living	1,653,391	-	1,653,391
Skilled Nursing	9,513,645	-	9,513,645
Memory Care	2,165,149	-	2,165,149
General and Management	4,841,439	-	4,841,439
Fundraising	181,521	-	181,521
Total Expenses	25,628,998	-	25,628,998
<b>INCOME FROM OPERATIONS</b>	651,352	95,261	746,613
<b>OTHER INCOME (LOSS)</b>			
Unrealized Gain (Loss) on Investments (Note 6)	(1,030,877)	186,033	(844,844)
Total Other Income (Loss)	(1,030,877)	186,033	(844,844)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(379,525)	281,294	(98,231)
<b>CHANGE IN PENSION LIABILITY (Note 8)</b>	652,823	-	652,823
<b>CHANGE IN NET ASSETS</b>	273,298	281,294	554,592
Net Assets - Beginning of Year	44,554,188	1,883,258	46,437,446
<b>NET ASSETS - END OF YEAR</b>	\$ 44,827,486	\$ 2,164,552	\$ 46,992,038

See accompanying Notes to Financial Statements.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
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	<u>24,997,055</u>	<u>(67,553)</u>	<u>24,929,502</u>
<b>EXPENSES</b>			
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	<u>23,654,961</u>	<u>-</u>	<u>23,654,961</u>
<b>GAIN (LOSS) FROM OPERATIONS</b>	1,342,094	(67,553)	1,274,541
<b>OTHER INCOME (LOSS)</b>			
Unrealized Gain (Loss) on Investments (Note 6)	(349,585)	97,756	(251,829)
Total Other Income (Loss)	<u>(349,585)</u>	<u>97,756</u>	<u>(251,829)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	992,509	30,203	1,022,712
<b>CHANGE IN PENSION LIABILITY (Note 8)</b>	<u>437,167</u>	<u>-</u>	<u>437,167</u>
<b>CHANGE IN NET ASSETS</b>	1,429,676	30,203	1,459,879
Net Assets - Beginning of Year	<u>43,124,512</u>	<u>1,853,055</u>	<u>44,977,567</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 44,554,188</u>	<u>\$ 1,883,258</u>	<u>\$ 46,437,446</u>

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2024**

	Residential	Assisted Living	Skilled Nursing	Memory Care	General and Management	Fundraising Expenses	Total
Salaries and Wages	\$ 1,854,938	\$ 917,576	\$ 4,664,921	\$ 1,213,230	\$ 1,277,808	\$ 129,798	\$ 10,058,271
Pension	63,286	31,305	159,155	41,392	206,763	4,428	506,329
Employee Benefits	477,012	235,962	1,199,622	311,992	292,525	33,379	2,550,492
Employee Benefits - COVID	-	2,325	1,225	275	-	-	3,825
Payroll Taxes	152,063	75,221	382,419	99,458	93,252	10,641	813,054
Legal	-	-	-	-	247,401	-	247,401
Accounting	-	-	-	-	113,129	-	113,129
Professional and Contract Services	1,054,308	-	393,948	259,771	354,547	695	2,063,269
Professional and Contract Services - COVID	-	1,805	15,343	903	-	-	18,051
Repairs and Maintenance	38,620	-	4,713	-	909	33	44,275
Activities	68,323	-	16,337	-	-	-	84,660
Miscellaneous	323,064	364,917	108,986	17,494	486,373	136	1,300,970
Advertising	-	-	-	-	294,295	-	294,295
Office Expenses	-	-	-	-	57,994	-	57,994
Occupancy	838,853	-	91,689	-	21,697	791	953,030
Travel	14,634	-	5,241	-	30,058	14	49,947
Conferences	-	-	2,644	-	16,800	-	19,444
Bond Interest and Amortization	-	-	-	-	938,357	-	938,357
Loan Interest	-	-	-	-	247,238	-	247,238
Members' Interest	-	-	-	-	104,333	-	104,333
Other Interest	-	-	-	-	13,902	-	13,902
Depreciation	1,234,751	-	437,183	180,993	31,937	1,164	1,886,028
Insurance	468,606	-	51,220	-	12,121	442	532,389
Medical Expenses	-	21,182	1,699,422	35,508	-	-	1,756,112
Medical Expenses - COVID	28,427	3,098	38,393	4,133	-	-	74,051
Food Expenses	656,968	-	241,184	-	-	-	898,152
<b>Total</b>	<b>\$ 7,273,853</b>	<b>\$ 1,653,391</b>	<b>\$ 9,513,645</b>	<b>\$ 2,165,149</b>	<b>\$ 4,841,439</b>	<b>\$ 181,521</b>	<b>\$ 25,628,998</b>

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
<b>Total</b>	<b>\$ 6,820,926</b>	<b>\$ 1,402,592</b>	<b>\$ 9,059,995</b>	<b>\$ 1,390,488</b>	<b>\$ 4,783,980</b>	<b>\$ 196,980</b>	<b>\$ 23,654,961</b>

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Residents	\$ 18,079,536	\$ 15,136,408
Entrance Fees Received from Residents	2,653,250	3,012,600
Contributions from Donors and Grants	2,746,566	1,605,554
Investment Income Received	4,235,103	3,798,940
Other Cash Revenues	194,454	212,267
Cash Paid to/on Behalf of Employees	(13,819,494)	(11,920,392)
Cash Paid to Suppliers	(8,737,831)	(8,172,205)
Interest Paid	(1,190,599)	(1,240,681)
Interest Paid to Members	(104,333)	(115,431)
Net Cash Provided by Operating Activities	4,056,652	2,317,060
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments Sold or Matured	13,366,014	11,770,808
Investments Purchased	(14,059,541)	(11,636,083)
Capital Expenditures	(760,427)	(1,081,463)
Net Cash Used by Investing Activities	(1,453,954)	(946,738)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions Restricted for Capital	79,714	19,665
Entrance Fee Refunds	(398,504)	(252,000)
Payment of Long-Term Debt	(1,347,186)	(1,292,954)
Net Cash Used by Financing Activities	(1,665,976)	(1,525,289)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	936,722	(154,967)
Cash and Cash Equivalents (Including Designated and Restricted) - Beginning of Year	2,798,191	2,953,158
<b>CASH AND CASH EQUIVALENTS (INCLUDING DESIGNATED AND RESTRICTED) - END OF YEAR</b>	\$ 3,734,913	\$ 2,798,191
Cash and Cash Equivalents	\$ 1,608,428	\$ 1,082,601
Cash Restricted or Designated for Investment in Long-Term Purposes	2,126,485	1,715,590
Total	\$ 3,734,913	\$ 2,798,191

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024	2023
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 554,592	\$ 1,459,879
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,886,028	1,797,092
Interest Expense - Debt Issuance Costs	31,245	31,245
Earned Entrance Fees	(2,113,162)	(2,060,509)
Provision for Credit Loss	63,024	(113,535)
Unrealized Loss on Investments	844,844	251,829
(Increase) Decrease in Pension Liability	(652,823)	(437,167)
Contributions for Financing Purposes	(79,714)	(19,665)
Changes in Operating Assets and Liabilities:		
Accrued Interest Receivable	(62,038)	(3,319)
Pledges Receivable	-	100,000
Amounts Due from Residents and Third-Party Payors	(917,190)	21,417
ERC Receivable	2,216,746	(2,216,746)
Other Receivables	(6,435)	(6,243)
Prepaid Expenses and Other Current Assets	3,134	(51,253)
Accounts Payable and Accrued Expenses	(109,319)	460,602
Accrued Interest Payable	(22,347)	(31,434)
Deferred Revenue from Entrance Fees	2,688,500	3,138,600
Assigned Assets Liability	(268,433)	(3,733)
Net Cash Provided by Operating Activities	\$ 4,056,652	\$ 2,317,060
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest	\$ 1,294,931	\$ 1,356,111

See accompanying Notes to Financial Statements.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**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, 2024 and 2023, the total number of residents was 216 and 186, 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, 2024 AND 2023**

**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, 2024 and 2023, respectively, uninsured, uncollateralized deposits were \$1,698,898 and \$1,503,880.

Hollenbeck also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation (SIPC) limits. At June 30, 2024 and 2023, respectively, unsecured brokerage deposits were \$1,290,852 and \$1,069,414. 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, 2024 AND 2023**

**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 \$2,239 for 2024 and \$27,051 for 2023. Assigned assets were \$3,600,227 and \$3,868,660 as of June 30, 2024 and 2023, 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 2024 and 2023, charity care, which is based on estimated cost per day in excess of service fees received, amounted to \$849,314 and \$582,524, 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 \$5,098,008 and \$4,921,174 as of June 30, 2024 and 2023, respectively.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

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

**Entrance Fees (Continued)**

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.

Entrance fee refunds were \$398,504 and \$252,000 for the years ended June 30, 2024 and 2023, 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 receivable were \$161,000 and \$126,000 the fiscal years ended June 30, 2024 and 2023, respectively.

**Resident and Health Care Services Revenue/Receivables**

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.

Resident services fees receivable are presented net of an allowance for credit losses. The adequacy of Hollenbeck's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivable portfolios by payor source and aging of receivables. Adjustments are made to the allowance as necessary. Management believes the composition of receivables at year-end is consistent with historical conditions as credit terms and practices and the customer base has not changed significantly.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

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

**Resident and Health Care Services Revenue/Receivables (Continued)**

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 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**

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.



**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**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 \$349,298 and \$380,544 at June 30, 2024 and 2023, respectively. Amortization expense totaled \$31,245 for both years ended June 30, 2024 and 2023. 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 \$23,599 and \$1,028 in 2024 and 2023, 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, 2024 AND 2023**

**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, 2024 and 2023, the estimated obligation is less than the balance of deferred revenue, therefore a liability is not recorded. The obligation is calculated assuming a range in discount rates from 4% to 10% for both years.

**Advertising Expense**

Hollenbeck Palms incurred advertising expense totaling \$294,295 and \$245,792, for the fiscal years ended June 30, 2024 and 2023, 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recently Issued Accounting Guidance**

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, Credit Losses (Topic 326). This new standard modifies the measurement of expected credit losses. Hollenbeck Palms adopted this new guidance beginning July 1, 2023 and utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on Hollenbeck Palms's financial statements but did change how the allowance for credit losses is determined. The comparative information has not been restated and continues to be reported under the accounting standards in effect in that reporting period.

**Reclassifications**

The presentation of the fiscal year ended June 30, 2023 cash flow statement has been revised to reflect amounts paid to and on behalf of employees separately from amounts paid to suppliers. This presentation conforms with the current year presentation.

**Subsequent Events**

Hollenbeck has evaluated subsequent events through October 9, 2024, which is the date these financial statements were available to be issued.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**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>2024</u>	<u>2023</u>
Cash and Cash Equivalents	\$ 1,608,428	\$ 1,082,601
Accrued Interest Receivable	133,348	71,310
Accounts Receivable	2,447,778	1,593,612
ERC Receivable	-	2,216,746
Other Receivables	12,678	6,243
Investments	<u>35,266,080</u>	<u>35,103,796</u>
Total Financial Assets	39,468,312	40,074,308
Less Assets Unavailable for General Expenditure Within One Year Due to:		
Restricted by Donor with Time or Purpose Restrictions	(1,153,079)	(898,719)
Restricted by Contractual Arrangements	<u>(4,119,149)</u>	<u>(4,298,345)</u>
Total	<u>\$ 34,196,084</u>	<u>\$ 34,877,244</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>2024</u>	<u>2023</u>
Building Projects - Board Designated	\$ 920,102	\$ 594,519
Capital Projects - Donor Restricted	63,520	63,520
Technology - Donor Restricted	174,630	147,696
Construction Loan Collateral	5,471,125	5,804,811
Debt Service Reserves	909,375	830,911
Net Assets Held in Perpetuity	773,323	773,323
Total	<u>\$ 8,312,075</u>	<u>\$ 8,214,780</u>
Cash Restricted or Designated for Long-Term Purposes	\$ 2,126,485	\$ 1,715,590
Investments	<u>6,185,590</u>	<u>6,499,190</u>
Total	<u>\$ 8,312,075</u>	<u>\$ 8,214,780</u>

**HOLLENBECK PALMS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2024 AND 2023**

**NOTE 5 ALLOWANCE FOR CREDIT LOSSES**

Changes in the allowance for credit losses for the year ended December 31, 2024 was as follows:

	2024
Balance as of July 1,	\$ 131,141
Provision for Losses	315,625
Amounts Written-Off	(252,601)
Recoveries	-
Balance as of June 30,	\$ 194,165

**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, 2024 AND 2023**

**NOTE 6 INVESTMENTS (CONTINUED)**

The composition of investments at June 30 is as follows:

	June 30, 2024			
	Total	Level 1	Level 2	Level 3
Cash and Money Market (N/A)	\$ 68,223	\$ -	\$ -	\$ -
Mutual Funds (Level 1)	2,574,200	2,574,200	-	-
Exchange Traded Funds (Level 1)	220,545	220,545	-	-
U.S. Treasury Securities (Level 1)	9,017,063	9,017,063	-	-
Stocks (Level 1)	18,766,373	18,766,373	-	-
Corporate Bonds (Level 2)	7,304,896	-	7,304,896	-
Mortgage-Backed Securities (Level 2)	3,371,961	-	3,371,961	-
Municipal Bonds (Level 2)	-	-	-	-
Annuity and Life Insurance Policies	126,578	-	-	-
Oil Interest (Level 3)	1,831	-	-	1,831
Total	<u>41,451,670</u>	<u>\$ 30,578,181</u>	<u>\$ 10,676,857</u>	<u>\$ 1,831</u>
Less: Amounts Restricted or Designated for Investment in Long-Term Purposes	<u>6,185,590</u>			
Total Investments	<u>\$ 35,266,080</u>			

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Cash and Money Market (N/A)	\$ 37,798	\$ -	\$ -	\$ -
Certificates of Deposit (Level 1)	2,112,988	2,112,988	-	-
Mutual 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	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	<u>6,499,190</u>			
Total Investments	<u>\$ 35,103,795</u>			

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

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 6 INVESTMENTS (CONTINUED)**

Investment return for the years ended June 30, 2024 and 2023 are composed of the following:

	2024	2023
Dividend and Interest Income	\$ 1,283,207	\$ 1,007,599
Realized Gains on Sales of Investment, Net	3,108,259	2,886,381
Less: Fees	(94,325)	(91,721)
Net Investment Income Included in Operations	4,297,141	3,802,259
Unrealized Gains (Losses)	(844,844)	(251,829)
Net Investment Income (Loss)	\$ 3,452,297	\$ 3,550,430

**NOTE 7 PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2024 and 2023 consist of the following:

	2024	2023
Land	\$ 11,086	\$ 11,086
Buildings and Improvements	61,050,022	60,523,020
Furniture and Equipment	6,248,177	6,103,284
Vehicles	335,439	335,439
Cemetery Lots	21,326	21,326
Total	67,666,050	66,994,155
Less: Accumulated Depreciation	(29,783,923)	(27,989,065)
Total	37,882,127	39,005,090
Construction in Progress	41,741	44,379
Total Property and Equipment	\$ 37,923,868	\$ 39,049,469

Depreciation expense for the years ended June 30, 2024 and 2023 was \$1,886,028 and \$1,797,092, 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.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 8 RETIREMENT PLANS (CONTINUED)**

**Cash Balance Pension Plan (Continued)**

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, 2024 AND 2023**

**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>2024</u>	<u>2023</u>
Change in Benefit Obligation:		
Benefit Obligation - Beginning of Year	\$ 4,868,374	\$ 5,295,879
Service Cost	301,479	128,879
Interest Cost	255,850	255,337
Benefits Paid	(300,853)	(433,458)
Actuarial (Gain)/Loss	(433,110)	(378,263)
Benefit Obligation - End of Year	<u>\$ 4,691,740</u>	<u>\$ 4,868,374</u>
Change in Plan Assets:		
Fair Value of Assets - Beginning of Year	\$ 4,259,204	\$ 4,321,217
Actual Return on Plan Assets	649,346	316,250
Employer Contribution	271,254	-
Benefits Paid	(433,110)	(378,263)
Fair Value of Assets - End of Year	<u>\$ 4,746,694</u>	<u>\$ 4,259,204</u>
Funded Status	<u>\$ 54,954</u>	<u>\$ (609,169)</u>
Amounts Recognized in the Statement of Financial Position are Included in:		
Accounts Payable and Accrued Expenses	<u>\$ 54,954</u>	<u>\$ (609,169)</u>
Amounts Recognized in Accumulated Net Assets Without Donor Restrictions Consist of:		
Actuarial (Gains)/Loss	<u>\$ (195,051)</u>	<u>\$ 457,772</u>
Source of Change in the Statement of Net Activities Consist of:		
Actuarial (Gain)/Loss Arising During Period	\$ (652,823)	\$ (473,702)
Actuarial (Gain)/Loss - Amortization	-	36,535
Total Change	<u>\$ (652,823)</u>	<u>\$ (437,167)</u>
Components of Net Periodic Benefit Cost:		
Service Cost	\$ 296,582	\$ 128,879
Interest Cost	255,850	255,337
Expected Return on Plan Assets	(292,479)	(276,007)
Amortization of Loss	-	36,535
Benefit Obligation - End of Year	<u>\$ 259,953</u>	<u>\$ 144,744</u>



**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 8 RETIREMENT PLANS (CONTINUED)**

**Cash Balance Pension Plan (Continued)**

**Accumulated Benefit Obligation**

The accumulated benefit obligation for Hollenbeck was \$4,691,740 and \$4,868,374 on June 30, 2024 and 2023, 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>2024</u>	<u>2023</u>
Discount Rate (on Benefit Obligations)	5.50%	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>2024</u>	<u>2023</u>
Discount Rate (on Net Periodic Costs)	5.50%	3.25%
Expected Long-Term Rate of Return on Plan Assets	7.00%	7.00%
Rate of Compensation Increase	3.00%	3.00%

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, 2024 AND 2023**

**NOTE 8 RETIREMENT PLANS (CONTINUED)**

**Cash Balance Pension Plan (Continued)**

**Accumulated Benefit Obligation (Continued)**

The fair value of the Plan's assets as of June 30, 2024 and 2023 by assets are as follows:

	<u>2024</u>	<u>2023</u>
Cash	\$ 16,083	\$ 91
Mutual Funds (Level 1)	4,406,340	3,903,088
Pooled Separate Account (Level 2)	48,259	40,078
Immediate Participation Guarantee Contract (Level 3)	<u>276,012</u>	<u>315,947</u>
Total Plan Assets	<u>\$ 4,746,694</u>	<u>\$ 4,259,204</u>

**Contributions**

Hollenbeck expects to contribute to the Plan the ERISA recommended amount of approximately \$199,097 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>
2025	\$ 270,571
2026	254,378
2027	250,618
2028	260,252
2029	255,157
2030-2034	1,571,412

**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, 2024 is \$-0-.

**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 \$22,773 and \$20,810 in 2024 and 2023, 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, 2024 and 2023, were \$44,122 and \$45,117, respectively.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**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 \$399,695 and \$431,230 in 2024 and 2023, 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, 2024 AND 2023**

**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.

**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>
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
2029	315,000	328,386	643,386
Thereafter	<u>6,855,000</u>	<u>2,769,068</u>	<u>9,624,068</u>
Total Bond Payable	8,285,000	<u>\$ 4,541,070</u>	<u>\$ 12,826,070</u>
Unamortized Cost of Issuance	(160,001)		
Net	<u>\$ 8,124,999</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.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 10 LONG-TERM DEBT (CONTINUED)**

**2016 Revenue Bonds (Continued)**

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>
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
2029	1,065,000	360,459	1,425,459
Thereafter	<u>8,865,000</u>	<u>1,361,250</u>	<u>10,226,250</u>
Total Bond Payable	13,830,000	<u>\$ 3,523,642</u>	<u>\$ 17,353,642</u>
Unamortized Cost of Issuance	(189,297)		
Net	<u>\$ 13,640,703</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, 2024 and 2023.

**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 require a monthly payment of \$693 and will mature in 2027. Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 8,311
2026	8,311
2027	8,312
Total	<u>\$ 24,934</u>

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**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>	<u>Principal Payments Due Within Fiscal Year</u>	<u>Interest Components Due Within Fiscal Year</u>	<u>Total Payments</u>
2025	\$ 203,569	\$ 240,796	\$ 444,365
2026	213,747	230,618	444,365
2027	224,435	219,931	444,366
2028	235,656	208,709	444,365
2029	247,439	196,926	444,365
Thereafter	3,691,081	1,196,934	4,888,015
Total	<u>\$ 4,815,927</u>	<u>\$ 2,293,914</u>	<u>\$ 7,109,841</u>

The loan collateral is invested in cash and U.S. Treasury Securities with a total fair market value of \$5,471,125 and \$5,804,811 as of June 30, 2024 and 2023, respectively.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 10 LONG-TERM DEBT (CONTINUED)**

**Summary of Long-Term Debt**

	June 30, 2024		
	Total	Less Current	Noncurrent
Other Loan Payable:			
Auto Loan	\$ 24,934	\$ 8,311	\$ 16,623
Construction Loan	4,815,927	203,569	4,612,358
Total	<u>\$ 4,840,861</u>	<u>\$ 211,880</u>	<u>\$ 4,628,981</u>
Bonds Payable:			
2014 Revenue Bonds	\$ 8,285,000	\$ 265,000	\$ 8,020,000
2016 Revenue Bonds	13,830,000	925,000	12,905,000
Unamortized Cost of Issuance	(349,298)	(27,097)	(322,201)
Total	<u>\$ 21,765,702</u>	<u>\$ 1,162,903</u>	<u>\$ 20,602,799</u>
	June 30, 2023		
	Total	Less Current	Noncurrent
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>

**NOTE 11 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.

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 11 ENDOWMENT RESTRICTED ASSETS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

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

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

**Endowment Composition and Changes in Endowment Net Assets**

Endowment net asset composition by type of fund as of June 30, 2024 and 2023 consisted of donor-restricted endowment funds; restricted in perpetuity of \$773,323, for both years presented, and restricted subject to purpose restrictions of \$1,391,228 and \$899,476, 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, 2024 and 2023.

**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.



**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**NOTE 11 ENDOWMENT RESTRICTED ASSETS (CONTINUED)**

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

	With Donor Restrictions
Endowment Net Assets - June 30, 2022	\$ 1,507,608
Investment Income	67,435
Net Depreciation (Realized and Unrealized)	97,756
Appropriation of Endowment Assets for Expenditure	-
Endowment Net Assets - June 30, 2023	<u>1,672,799</u>
Investment Income	67,570
Net Appreciation (Realized and Unrealized)	186,033
Appropriation of Endowment Assets for Expenditure	-
Endowment Net Assets - June 30, 2024	<u><u>\$ 1,926,402</u></u>

**NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS**

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

	2024	2023
Endowment:		
Held in Perpetuity	\$ 773,323	\$ 773,323
Subject to Purpose Restrictions	1,153,079	898,719
Subject to Expenditure for Specific Purpose:		
Technology	174,630	147,696
Capital Projects	63,520	63,520
Total	<u>\$ 2,164,552</u>	<u>\$ 1,883,258</u>

**NOTE 13 RESIDENT AND HEALTH CARE SERVICES REVENUE**

The composition of resident services revenue by primary service line for the years ended June 30, 2024 and 2023 is as follows:

	2024	2023
Independent Living	\$ 6,774,060	\$ 5,876,891
Assisted Living	1,600,045	1,007,896
Skilled Nursing	8,231,541	7,000,238
Memory Care	2,407,242	1,104,388
Entrance Fee Amortization and Processing Fees	2,259,355	2,056,547
Total Resident Service Fees	<u>\$ 21,272,243</u>	<u>\$ 17,045,960</u>

**HOLLENBECK PALMS  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 13 RESIDENT AND HEALTHCARE SERVICE REVENUE (CONTINUED)**

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

	<u>2024</u>	<u>2023</u>
Patient Service Revenue:		
Medi-Cal Program	\$ 2,601,480	\$ 2,223,424
Medicare Program	1,597,947	824,806
Managed Care	324,257	556,977
Private Pay	4,125,574	3,804,849
Total Patient Service Revenue	<u>8,649,258</u>	<u>7,410,056</u>
Less: Bad Debt Expense:		
Medi-Cal Program	(158,626)	(128,881)
Medicare Program	(12,618)	63,802
Managed Care	(81,356)	(97,398)
Private Pay	(165,117)	(247,341)
Total Bad Debt Expense	<u>(417,717)</u>	<u>(409,818)</u>
Net Patient Service Revenue	<u>\$ 8,231,541</u>	<u>\$ 7,000,238</u>

Patient service revenue is presented net of contractual adjustments. 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.

Amounts due from resident and health care service agreements for the years ended June 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Balance as of July 1	\$ 1,593,612	\$ 1,501,494
Balance as of June 30	2,447,778	1,593,612

The aggregate amount due from Medi-Cal, Medicare, and Managed Care at June 30, 2024 and 2023, is \$1,677,493 and \$968,961, respectively.

Amounts deferred from resident and health care service agreements for the years ended June 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Balance as of July 1	\$ 4,921,174	\$ 4,095,083
Balance as of June 30	5,098,008	4,921,174

**HOLLENBECK PALMS  
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**NOTE 14 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>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 85,975
2026	88,554
2027	91,211
2028	93,947
2029	96,766
Thereafter	2,114,778
Total	<u><u>\$ 2,571,231</u></u>



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