RECEIVED
NOV 01 2013
CONTINUING CARE
CONTRACTS BRANCH

HOLLENBECK PALMS

Report of Independent Auditor and Financial Statements
June 30, 2013
With Comparative Totals for the year ended June 30, 2012

HOLLENBECK PALMS

Report of Independent Auditor and Financial Statements
June 30, 2013
With Comparative Totals for the year ended June 30, 2012

TABLE OF CONTENTS

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

RECEIVED
NOV 01 2013
CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Hollenbeck Palms

Report on Financial Statements

We have audited the accompanying financial statements of Hollenbeck Palms (a nonprofit corporation) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

2210 E. Route 66, Suite 100, Glendora, CA 91740
Tel 626.857.7300 | Fax 626.857.7302 | E-Mail INFO@VLSLLP.COM | Web WWW.VLSLLP.COM

Board of Trustees of
Hollenbeck Palms

Opinion

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 16, 2013

HOLLENBECK PALMS

STATEMENT OF FINANCIAL POSITION
June 30, 2013
With Comparative Totals as of June 30, 2012

	2013	2012
ASSETS:		
Cash and cash equivalents (Notes 2 and 3)	$ 1,910,192	$ 3,039,106
Entrance fee receivable (Note 2)	315,550	153,300
Assigned assets receivable (Note 2)	-	27,899
Accrued interest receivable	56,244	87,833
Due from third-party payers, less allowance for bad debts of $238,711 and $199,078 for 2013 and 2012, respectively	1,832,856	1,791,704
Pledges and other contributions receivable less discount (Note 4)	1,214,608	-
Prepaid expenses and other assets	397,063	395,973
Cash reserved for debt service (Note 3)	1,626,716	1,626,635
Investments (Note 5)	43,271,024	40,124,592
Property and equipment, net (Note 6)	27,483,027	28,109,126
TOTAL	$ 78,107,280	$ 75,356,168
LIABILITIES AND NET ASSETS:		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,525,385	$ 3,347,737
Accrued interest payable	434,557	447,251
Deferred revenue from entrance fees (Note 2)	4,099,030	4,000,277
Assigned assets, net (Note 2)	7,553,077	10,388,443
Long term debt (Note 9)	22,995,000	23,540,000
Total liabilities	37,607,049	41,723,708
NET ASSETS (Note 2)		
Unrestricted	37,531,814	32,034,985
Temporarily restricted	2,195,094	824,152
Permanently restricted	773,323	773,323
Total net assets	40,500,231	33,632,460
TOTAL	$ 78,107,280	$ 75,356,168

The accompanying notes are an integral part of these financial statements.

HOLLENBECK PALMS

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
REVENUES, GAINS, AND OTHER SUPPORT:					
Resident service fees, including amortization of entrance fees (Note 2)	$ 14,535,081	$	$	$ 14,535,081	$ 14,556,873
Investment income, including realized gains (Note 5)	1,521,864	23,462		1,545,326	1,642,521
Donor contributions	70,918	1,217,508		1,288,426	80,559
Other	403,880		-	403,880	308,109
Total revenues, gains, and other support	16,531,743	1,240,970	-	17,772,713	16,588,062
EXPENSES (Note 13):					
Resident care	6,133,324			6,133,324	6,189,009
General and administrative	3,568,454			3,568,454	3,338,248
Engineering and plant	1,033,033			1,033,033	1,001,215
Dietary	2,242,701			2,242,701	2,123,598
Housekeeping	703,624			703,624	700,762
Depreciation	1,152,767			1,152,767	1,163,499
Bond interest	1,060,708			1,060,708	1,090,196
Members' interest (Note 2)	243,896			243,896	274,943
Total expenses	16,138,507	-	-	16,138,507	15,881,470
OTHER GAIN-Resident contributions (Note 2)	2,324,595	-	-	2,324,595	1,206,264
CHANGE IN NET ASSETS FROM OPERATIONS	2,717,831	1,240,970	-	3,958,801	1,912,856
OTHER INCOME (LOSS):					
Unrealized gain/(loss) on investments (Note 5)	2,141,850	129,972		2,271,822	(434,858)
Change in pension liability (Note 7)	637,148			637,148	(851,161)
CHANGE IN NET ASSETS	5,496,829	1,370,942	-	6,867,771	626,837
NET ASSETS:					
Beginning of year	32,034,985	824,152	773,323	33,632,460	33,005,623
End of year	$ 37,531,814	$ 2,195,094	$ 773,323	$ 40,500,231	$ 33,632,460

The accompanying notes are an integral part of these financial statements.

HOLLENBECK PALMS

STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	$ 12,028,891	$ 11,919,615
Entrance fees received from residents	2,229,395	1,378,000
Contributions from donors	73,818	523,443
Investment income received	1,099,504	979,043
Processing fees	26,645	14,860
Other cash revenues	399,697	305,109
Cash paid to suppliers and employees	(14,188,171)	(12,357,589)
Interest paid	(1,073,402)	(1,102,191)
Interest paid to members	(243,649)	(277,048)
Net cash provided by operating activities	352,728	1,383,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments sold or matured	2,975,566	3,838,151
Investments purchased	(3,370,890)	(5,013,715)
Capital expenditures	(541,237)	(500,630)
Net cash used in investing activities	(936,561)	(1,676,194)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long term debt	(545,000)	(515,000)
Net cash used in financing activities	(545,000)	(515,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,128,833)	(807,952)
CASH AND CASH EQUIVALENTS - Beginning of year	4,665,741	5,473,693
CASH AND CASH EQUIVALENTS - End of year	$ 3,536,908	$ 4,665,741

Note: Cash and cash equivalents include cash reserved for debt service reported on the statement of financial position.

The accompanying notes are an integral part of these financial statements.

HOLLENBECK PALMS

STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	2013	2012
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	$ 6,867,771	$ 626,837
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,152,767	1,163,499
Change in provision for doubtful accounts	39,633	(922)
Bad debt write-off	216,981	248,412
Unrealized (gain) loss on investments	(2,271,822)	434,858
Realized gain on investments	(477,411)	(692,869)
Increase (decrease) in pension liability	(637,148)	851,161
Other gain-resident contributions	(2,324,595)	(1,206,264)
Contributions for financing purposes	(1,214,608)	-
Changes in operating assets and liabilities:		
Entrance fee receivable	(162,250)	31,000
Assigned assets receivable	27,899	88,094
Accrued interest receivable	31,589	29,391
Amounts due from third-party payers	(297,766)	(145,576)
Prepaid expenses and other current assets	(1,090)	(47,101)
Pledges and contributions receivable	-	442,884
Accounts payable and accrued expenses	(185,204)	(48,263)
Deferred revenue from entrance fees	98,753	(761,833)
Assigned assets liability	(510,771)	369,934
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 352,728	$ 1,383,242
SUPPLEMENTAL CASH FLOW INFORMATION:		
Noncash assigned assets	$ (336,879)	$ (912,668)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 1 - MISSION STATEMENT:

Hollenbeck Palms (the "Palms") 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations - The Palms, incorporated as a California nonprofit public benefit corporation, owns and operates a retirement community and skilled nursing facility in Los Angeles, California. Residents receive residence, services, and care under three plans, as more fully described below. The facilities include approximately 146 residential units and 106 skilled nursing beds. As of June 30, 2013 and 2012, total number of residents was 216 and 222, respectively.

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

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

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

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Palms and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets not subject to donor-imposed stipulations. The Board has designated unrestricted net assets, as explained in Note 3.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Palms and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Basis of Presentation (continued) - *Permanently Restricted Net Assets:* Net assets subject to donor-imposed stipulations that they be maintained permanently by the Palms. Generally, the donors of these assets permit the Palms to use all or part of the income earned on any related investments for general or specific purposes.

Additional information on temporarily and permanently restricted net assets is provided in Note 11.

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

As care is provided to the residents, the remaining assets are amortized to income at prevailing rates for the residential section or for the nursing unit, as applicable. Upon the expiration of a Plan A resident, an amount equal to assets assigned, less accumulated care costs, is transferred from deferred income to other gain as a resident contribution. Such resident contributions were $2,324,595 for 2013 and $1,206,264 for 2012. Assigned assets receivable were $0 and $27,899 for June 30, 2013 and 2012, respectively. Assigned assets were $7,553,077 and $10,388,443 as of June 30, 2013 and 2012, respectively.

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

Rates under all plans are adjusted by the Board of Trustees as the cost of providing care fluctuates. Under both Plans A and B, when members fully deplete their assigned assets, the Palms will absorb their cost of care by reducing rates to the amount of state and federal public aid available. For 2013 and 2012, charity care, which is based on estimated cost per day in excess of established rates, amounted to $941,133 and $766,701, respectively.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Entrance Fees - Fees paid by a resident upon entering into a continuing care retirement community contract, net of estimated future refunds, are recorded as deferred revenue, and are amortized to income using the methods described above. Under resident contracts, the full amount of entrance fees is refundable if a resident leaves the Palms within the first 90 days after entering; otherwise, the remaining unamortized entrance fees and unexpended assigned assets are refunded if a resident leaves. Unamortized entrance fees totaled $4,099,030 and $4,000,277 as of June 30, 2013 and 2012, respectively.

Management believes the estimated amount of entrance fees that are expected to be refunded to current residents under the terms of these contracts and based on previous attrition experience is not material and, as such, no provision for the liability has been reported.

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 $315,550 and $153,300 as of June 30, 2013 and 2012, respectively. Based on previous experience, management does not expect to incur any significant uncollectible amounts, therefore, an allowance for uncollectible amounts has not been reported.

Resident Services Fees - Resident services fees are recorded net of a provision for contractual allowances. The contractual allowance represents the difference between established rates and per-diem reimbursement. In addition, resident services fees are recorded net of bad debt expense.

Members' Interest - Residents have the option of opening a member's savings account with the Palms. Residents are able to make deposits and withdrawals from their savings accounts as needed. At the resident's request, payments for various bills and charges at the Palms may be paid by the Palms from the member's savings accounts. The Palms invests the funds deposited and pays members an established interest rate of 2-3% of the net amount (assigned assets and savings balance less accumulated charges). The calculated interest is recorded as members' interest expense and is included in assigned assets, net, in the statement of financial position and in members' interest in the statement of activities.

Obligation to Provide Future Services - The Palms calculates the present value of the net cost of future services and use of facilities to be provided to current residents ("estimated obligation") and compares that amount with the balance of deferred revenue from entrance fees. If the estimated obligation exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. As of June 30, 2013 and 2012, the estimated obligation is less than the balance of deferred revenue from entrance fees. The obligation is calculated assuming a 4% inflation rate and a 4% discount rate for June 30, 2013 and 2012, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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

Income Taxes - The Palms has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Palm's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

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

Cash and Cash Equivalents - The Palms considers all highly liquid debt investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. Accounts with greater than three month's maturity are included with investments. The Palms holds deposits in excess of Federal Deposit Insurance Corporation ("FDIC") limits. At June 30, 2013 and 2012 respectively, uninsured, uncollateralized deposits were $264,509 and $1,416,298. The Palms also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation ("SIPC") limits. At June 30, 2013 and 2012 respectively, unsecured brokerage deposits were $2,603,235 and $2,421,512. These deposits are held by creditworthy, high-quality financial institutions.

Donor-Restricted Contributions - The Palms reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as released from restrictions. No temporarily restricted net assets were released from restrictions during the fiscal year ended June 30, 2013. $10,000 of temporarily restricted net assets was released from restrictions during fiscal year ended June 30, 2012. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions. Temporarily restricted net assets are composed of unexpended restricted contributions received. Gifts permanently restricted by the donor, such as endowments whereby the donor has prohibited the use of the corpus, are recorded as permanently restricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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

Investments principally consist of stocks, bonds, and bank deposits. The fair value of investments is based on current trading values. 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 that such changes could materially affect the amounts reported in the accompanying balance sheets.

Property and Equipment - Property and equipment are stated at cost if purchased or at fair value on the date received if donated, less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Depreciation is computed on the straight-line method, based on the following estimated useful lives:

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

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

Self-Insurance - The Palms is self-insured for claims under the California Unemployment Insurance Code. Such claims are paid when approved by the Palms. The amounts of such claims were $3,030 and $4,778 in 2013 and 2012, respectively.

Allocations of Expenses - The costs of providing various programs and other activities have been summarized on a departmental basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited in Note 12.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Comparative Totals - The financial statements and footnotes include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Palms' financial statements for the year ended June 30, 2012 from which the information was derived.

Subsequent Events - The Palms has evaluated subsequent events through September 16, 2013, which is the date these financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

NOTE 3 - CASH RESTRICTIONS, DESIGNATIONS AND RESERVATIONS:

Cash and cash equivalents at June 30, 2013 includes $15,086 temporarily restricted for life care membership purposes, $187,312 board designated for future building and asset replacement purposes, $748,945 board designated for debt service payments, and $1,626,716 in bond debt service reserves required as a condition of the bond issue to be used in the event of a principal or interest payment deficiency.

Cash and cash equivalents at June 30, 2012 includes $57,976 temporarily restricted for life care membership purposes, $129,694 board designated for future building and asset replacement purposes, $674,551 designated by the board for debt service payments, and $1,626,635 in bond debt service reserves required as a condition of the bond issue to be used in the event of a principal or interest payment deficiency.

NOTE 4 - PLEDGES RECEIVABLE:

Pledges receivable expected to be received in one year or less are recorded at net realizable value, which approximates fair market value. Pledges receivable have been discounted to present value using a discount rate of 1.41%. An allowance for uncollectable amounts has not been recorded based on management's assessment of the donors' creditworthiness. At June 30, 2013, the Palms had unconditional promises to give expected to be received in the following periods:

		2013
In one year or less	$	221,667
Between one and five years		881,667
More than five years		166,666
Gross unconditional pledges receivable		1,270,000
Less: discount on pledges receivable		(55,392)
Net pledges receivable	$	1,214,608

NOTE 5 - INVESTMENTS:

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

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

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

The composition of investments at June 30, 2013 and 2012 is as follows:

	2013	2012
Stocks (Level 1)	$ 34,707,428	$ 29,073,659
Bonds (Level 1)	6,560,311	8,650,629
Bank deposits (Level 1)	453,133	446,849
	41,720,872	38,171,137
Annuity and life insurance policies (Level 2)	1,545,832	1,551,023
Real estate owned (Level 3)	4,320	402,432
Total investments	$ 43,271,024	$ 40,124,592

A reconciliation of the change in assets measured at fair value using significant unobservable inputs (Level 3) is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	July 1, 2012	Dispositions	June 30, 2013
Real estate owned	$ 402,432	$ (398,112)	$ 4,320

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 5 - INVESTMENTS: (continued)

Investment income and gains for investments for the years ended June 30, 2013 and 2012 are composed of the following:

	2013	2012
Dividend and interest income	$ 1,157,965	$ 1,039,652
Realized gains on sales of investments, net	477,411	692,869
Less fees	(90,050)	(90,000)
Net investment income included in operations	1,545,326	1,642,521
Unrealized gains (losses)	2,271,822	(434,858)
Net investment income	$ 3,817,148	$ 1,207,663

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment at June 30, 2013 and 2012 consist of the following:

	2013	2012
Land	$ 6,766	$ 6,766
Buildings and improvements	39,895,542	39,752,246
Furniture and equipment	5,533,586	5,213,046
Vehicles	266,736	263,938
Cemetery lots	21,326	21,326
	45,723,956	45,257,322
Less accumulated depreciation	(18,242,132)	(17,152,587)
	27,481,824	28,104,735
Construction in progress	1,203	4,391
	$ 27,483,027	$ 28,109,126

NOTE 7 - RETIREMENT PLANS:

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.

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

NOTE 7 - RETIREMENT PLANS: (continued)

The Palms uses a June 30 measurement date for its plan.

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

	2013	2012
Change in benefit obligation:		
Benefit obligation - beginning of year	$ 7,194,962	$ 6,340,009
Service cost	366,528	364,521
Interest cost	298,683	341,699
Benefits paid	(528,597)	(480,178)
Actuarial (gain) loss	(244,254)	628,911
Benefit obligation - end of year	$ 7,087,322	$ 7,194,962
Change in plan assets:		
Fair value of assets - beginning of year	$ 5,551,638	$ 5,284,876
Actual return on plan assets	722,929	156,750
Employer contribution	570,820	590,190
Benefits paid	(528,597)	(480,178)
Fair value of assets - end of year	$ 6,316,790	$ 5,551,638
Funded status	$ (770,532)	$ (1,643,324)

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 7 - RETIREMENT PLANS: (continued)

	2013	2012
Amounts recognized in the statement of financial position are included in:		
Accounts payable and accrued liabilities	$ (770,532)	$ (1,643,324)
Amounts recognized in accumulated unrestricted net assets consist of:		
Actuarial loss	$ 1,284,140	$ 1,921,088
Source of change in the statement of net activities consist of:		
Actuarial (gain) loss arising during period	$ (637,148)	$ 851,161
Components of net periodic benefit cost:		
Service cost	$ 366,528	$ 364,521
Interest cost	298,683	341,699
Expected return on plan assets	(423,526)	(410,819)
Amortization of prior service cost	N/A	N/A
Amortization of loss	93,291	31,819
Benefit obligation - end of year	$ 334,976	$ 327,220

Accumulated Benefit Obligation

The accumulated benefit obligation for the Palms was $7,087,322 and $7,194,962 at June 30, 2013 and 2012, respectively. Accounting principles generally accepted in the United States of America require the recognition of an additional liability in the amount of the unfunded accumulated benefit obligation, with an equal amount to be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost and unrecognized transition obligation. Any additional amounts are charged to unrestricted net assets.

NOTE 7 - RETIREMENT PLANS: (continued)

Accumulated Benefit Obligation (continued)

Weighted-average assumptions used to determine benefit obligations at June 30, 2013 and 2012, are as follows:

	2013	2012
Discount rate (on benefit obligations)	4.75%	4.25%
Expected long-term rate of return on plan assets	7.25%	7.50%
Rate of compensation increase	3.00%	3.00%

Weighted-average assumptions used to determine net periodic pension cost at June 30, 2013 and 2012, are as follows:

	2013	2012
Discount rate (on net periodic costs)	4.75%	4.25%
Expected long-term rate of return on plan assets	7.25%	7.50%
Rate of compensation increase	3.00%	3.00%

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

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

NOTE 7 - RETIREMENT PLANS: (continued)

Contributions

The Palms expects to contribute to the Plan the ERISA recommended amount of $550,000 in the next year.

Estimated Future Benefit Payments

The estimated future benefit payments are as follows:

Years beginning July 1,	
2014	$ 391,597
2015	390,213
2016	414,786
2017	381,708
2018	408,503
2019-2023	1,902,940

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, 2013 is $45,272.

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 $47,837 and $46,169 in 2013 and 2012, respectively. The contributions to this plan are set aside in a grantor trust, but remain subject to the claims of creditors until distributed to the participants or beneficiaries.

401(k) Plan

The Palms has a 401(k) defined contribution plan, which covers employees with one year of service and who work at least 1,000 hours per year. The Palms contributes 10% of each employee's contributions. Employer contributions for the years ended June 30, 2013 and 2012, were $22,038 and $19,720, respectively.

NOTE 8 - CONTINGENCIES:

Workers' Compensation Self-Insurance

Through December 11, 2002, the Palms maintained workers' compensation insurance through the state fund. Effective December 12, 2002, the Palms entered into a contractual agreement to form 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. amounting to approximately $421,876 and $354,336 in 2013 and 2012, respectively.

Litigation

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

NOTE 9 - LONG TERM DEBT:

On February 16, 2007, the Palms issued $28,000,000 of Revenue Bonds to finance construction of the Magnolia Court project. The Bonds are payable beginning February 1, 2010, with annual payments scheduled through February 1, 2037. One sixth of the amount of interest due on the succeeding interest payment date plus one twelfth of the principal due on the succeeding principal payment date shall be paid by the last business day on or prior to the 20th of each month to the Trustee. Interest rates range from 4.15% to 5.59%.

In February 2009, the Palms extinguished $3,000,000 of the bond debt, realizing a gain of $1,019,982. In August 2010, the Palms extinguished $400,000 of the bonded debt prior to debt maturity of February 2011, realizing a gain of $17,994.

A Reserve Fund was established in the amount of $1,769,630 to make any principal and interest payments if a shortage occurs in the required payments. As a result of the redemption, the reserve has been reduced to $1,626,635. Interest earned in the reserve is added to the balance as of June 30, 2013.

NOTE 9 - LONG TERM DEBT: (continued)

The Bonds are secured by an insurance policy issued by Radian Asset Assurance, Inc. The bonds are further secured by the Magnolia Court project and the existing facilities, assignment of rents, and a security agreement. The sale agreement requires the Palms to comply with various covenants, conditions and restrictions.

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

Debt Service Due Fiscal Year	Principal Account Payments Due Within Fiscal Year	Interest Components Due Within Fiscal Year	Total Payments
2013	$ 575,000	$ 1,042,937	$ 1,617,937
2014	605,000	1,010,794	1,615,794
2015	635,000	984,201	1,619,201
2016	665,000	957,849	1,622,849
2017	695,000	957,849	1,652,849
Thereafter	19,820,000	10,348,141	30,168,141
Totals	$ 22,995,000	$ 15,301,771	$ 38,296,771

The fair value of bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities (level 2 fair value measurements). The estimated fair value of these bonds payable at June 30, 2013 and 2012 approximated $19,960,893 and $21,988,317, respectively. The carrying amounts of these bonds payable at June 30, 2013 and 2012 were $22,995,000 and $23,540,000, respectively.

NOTE 10 - REDEVELOPMENT PLAN OBLIGATION (AB 1169 Disclosure):

The bonded debt issuance of $28,000,000 was primarily designated for the Magnolia Court project, which was completed in 2009. This and other master plan projects are designed to meet the needs of the organization by providing additional housing and facilities for residents, which is consistent with the Palms' tax exempt status. As of June 30, 2013, $24,690,346 had been expended for construction costs, $1,683,019 had been expended to pay bond issuance costs and $5,005,000 had been expended to retire debt. A balance of $1,626,716, including additional interest income, remains for future debt service payments. In addition, as of June 30, 2013, the Board had designated $748,945 of unrestricted net assets for future debt service.

NOTE 11 - ENDOWMENT RESTRICTED ASSETS:

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

Interpretation of Relevant Law

The Board of Trustees of the Palms follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the fair value of the donor-restricted endowment fund absent explicit donor stipulations. As a result, the Palms classifies as permanently restricted net assets (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 classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Palms in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) 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, 2013 and 2012 consisted of donor-restricted endowment funds; temporarily restricted subject to purpose restrictions of \$2,249,486 and \$824,153, respectively, and permanently restricted by explicit donor stipulation of \$773,323. Changes in endowment net assets for the fiscal year ended June 30, 2013 are reported in the statement of activities as temporarily restricted or permanently restricted activities as appropriate.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Palms to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when applicable. There were no such deficiencies as of June 30, 2013.

NOTE 11 - ENDOWMENT RESTRICTED ASSETS: (continued)

Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives

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

Spending Policy

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$ 787,897	$ 773,323	$ 1,561,220
Investment income	23,828	-	23,828
Net appreciation (realized and unrealized)	12,427	-	12,427
Endowment net assets, June 30, 2012	824,152	773,323	1,597,475
Investment income	23,462	-	23,462
Contributions	1,217,508	-	1,217,508
Net appreciation (realized and unrealized)	129,972	-	129,972
Endowment net assets, June 30, 2013	$ 2,195,094	$ 773,323	$ 2,968,417

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 12 - PATIENT SERVICE REVENUE:

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

	2013	2012
Medi-Cal program	$ 3,905,688	$ 3,441,191
Medicare program	2,681,876	3,127,595
Other	4,064,806	3,901,116
Total patient service revenue	10,652,370	10,469,902
Less contractual provisions	(2,591,937)	(1,912,097)
Less bad debt expense	(256,614)	(247,490)
Net patient service revenue	$ 7,803,819	$ 8,310,315

For the years ended June 30, 2013 and 2012, the Palms derived 30% and 29%, of its patient service revenue from Medi-Cal, respectively, and 22% and 27%, respectively, from Medicare. The aggregate amount due from Medi-Cal and Medicare at June 30, 2013 and 2012, is $1,495,078 and $1,171,938, 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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

NOTE 13 - CLASSIFICATION OF EXPENSES:

2013	Programs: Board and Care	Programs: Skilled Nursing Facility	Total
Resident care	$ -	$ 5,450,532	$ 5,450,532
Assisted resident living	682,792	-	682,792
General and administrative	2,140,657	1,427,797	3,568,454
Engineering and plant	805,766	227,267	1,033,033
Dietary	1,345,370	897,331	2,242,701
Housekeeping	548,827	154,797	703,624
Depreciation	899,158	253,609	1,152,767
Bond interest	1,060,708	-	1,060,708
Members' interest	243,896	-	243,896
Total expenses	$ 7,727,174	$ 8,411,333	$ 16,138,507

2012	Programs: Board and Care	Programs: Skilled Nursing Facility	Total
Resident care	$ -	$ 5,517,405	$ 5,517,405
Assisted resident living	671,604	-	671,604
General and administrative	2,002,576	1,335,672	3,338,248
Engineering and plant	780,948	220,267	1,001,215
Dietary	1,273,922	849,676	2,123,598
Housekeeping	546,594	154,168	700,762
Depreciation	907,529	255,970	1,163,499
Bond Interest	1,090,196	-	1,090,196
Members' interest	274,943	-	274,943
Total expenses	$ 7,548,312	$ 8,333,158	$ 15,881,470

Hollenbeck Palms

Continuing Care Reserve Report Schedules as of and for the Year Ended June 30, 2013, and Independent Auditors' Report

HOLLENBECK PALMS

TABLE OF CONTENTS

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
Fiscal Year Ended June 30, 2013

1. The annual reserve reports and any amendments thereto are correct to the best of my knowledge.

2. Each continuing care contract form in use for new residents has been approved by the California Department of Social Services.

3. The provider is maintaining the required liquid reserve and, if applicable, refund reserve.

William G. Heideman
President

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hollenbeck Palms

We have audited the accompanying continuing care reserve report ("Reports") of Hollenbeck Palms, a California Not-For-Profit Corporation, (the "Organization") as of the year ended June 30, 2013. These Reports are the responsibility of the Organization's management. Our responsibility is to express an opinion on the Reports based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reports are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reports, assessing the accounting principles used and significant estimates made by the Organization's management, as well as evaluating the overall presentation of the Reports. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code Section 1792 and are not intended to be a complete presentation of the Organization's assets, liabilities, revenues and expenses.

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of the Organization as of June 30, 2013, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

This report is intended solely for the use of the Organization and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP
October 24, 2013

2210 E. Route 66, Suite 100, Glendora, CA 91740
Tel 626.857.7300 | Fax 626.857.7302 | E-Mail INFO@VLSLLP.COM | Web WWW.VLSLLP.COM

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	222
[2]	Number at end of fiscal year	216
[3]	Total Lines 1 and 2	438
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	219
	All Residents	
[6]	Number at beginning of fiscal year	222
[7]	Number at end of fiscal year	216
[8]	Total Lines 6 and 7	438
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	219
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	1.00

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]		Total Operating Expenses		$16,138,507
	[a]	Depreciation	$1,152,767	
	[b]	Debt Service (Interest Only)	$1,060,708	
[2]		Subtotal (add Line 1a and 1b)		$2,213,475
[3]		Subtract Line 2 from Line 1 and enter result.		$13,925,032
[4]		Percentage allocated to continuing care residents (Form 1-1, Line 11)		100%
[5]		Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)		$13,925,032
[6]		**Total Amount Due** (multiply Line 5 by .001)		$13,925

PROVIDER: HOLLENBECK PALMS
COMMUNITY: HOLLENBECK PALMS

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	02/23/07	$545,000	$1,073,402	$0	$1,618,402
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$1,073,402	$0	$1,618,402

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: HOLLENBECK PALMS

HOLLENBECK PALMS
TWO-WAY RECONCILIATION IN SUPPORT OF FORM 5-1
For the fiscal year ended June 30, 2013

AMOUNTS FROM FINANCIAL STATEMENTS

Total cash paid for bond interest expense As reported on Form 5-1	$ 1,073,402
Amount of cash paid reducing accrued interest expense for amounts accrued in prior year	(447,251)
Increase to accrued interest expense (5 months accrual of 6 months interest due for February to July 2012)	434,557
Bond interest expense per Statement of Activities, Page 4:	$ 1,060,708

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	N/A				$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$0	0	$0

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: HOLLENBECK PALMS

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$1,618,402
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	N/A
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$1,618,402

PROVIDER: HOLLENBECK PALMS

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$16,138,507
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$1,073,402	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)		
	c.	Depreciation	$1,163,499	
	d.	Amortization		
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract		
	f.	Extraordinary expenses approved by the Department		
3		Total Deductions		$2,236,901
4		Net Operating Expenses		$13,901,606
5		Divide Line 4 by 365 and enter the result.		$38,087
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$2,856,494

PROVIDER: HOLLENBECK PALMS
COMMUNITY: HOLLENBECK PALMS

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: HOLLENBECK PALMS
Fiscal Year Ended: 06/30/09

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the fiscal year ended 06/30/09 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year as follows:

		Amount
[1]	Debt Service Reserve Amount	$1,618,402
[2]	Operating Expense Reserve Amount	$2,856,494
[3]	**Total Liquid Reserve Amount:**	$4,474,897

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents	1,626,716		1,910,192
[5]	Investment Securities			6,560,311
[6]	Equity Securities			34,707,428
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve			(not applicable)
[10]	Other: (describe qualifying asset)			
	Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	1,626,716	[12]	43,177,931
	Reserve Obligation Amount: [13]	1,618,402	[14]	2,856,494
	Surplus/(Deficiency): [15]	8,314	[16]	40,321,437

Signature: Will-G. Hadeu

(Authorized Representative)

President

(Title)

Date: 10/29/13

HOLLENBECK PALMS
TWO-WAY RECONCILIATION IN SUPPORT OF FORM 5-5
For the fiscal year ended June 30, 2013

	Debt Service Reserve	Operating Reserve	Total
AMOUNTS FROM FINANCIAL STATEMENTS:			
Cash and cash equivalents, per Statement of Financial Position			3,536,908
Allocated to Debt Service Reserve, Line [4]	1,626,716		1,626,716
Allocated to Operating Reserve, Line [4]		1,910,192	1,910,192
Total Cash and cash equivalents on Form 5-5	1,626,716	1,910,192	3,536,908
Investments, per Statement of Financial Position			43,271,024
Components of Investments, per Footnote #5			
Bonds (Investment Securities), Form 5-5, Operating Reserve, Line [5]		6,560,311	6,560,311
Stocks (Equity Securities), Form 5-5, Operating Reserve, Line [6]		34,707,428	34,707,428
Bond Funds (restricted use; not reported on Form 5-5)			-
Bank Deposits (restricted use; not reported on Form 5-5)			453,133
Real Estate Owned (restricted use; not reported on Form 5-5)			4,320
Annuity & Life insurance policies (restricted use; not reported on Form 5-5)			1,545,832
Total Investments	-	41,267,739	43,271,024
Total Amount of Qualifying Assets, Line [11]	1,626,716	43,177,931	

CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT
GENERAL INFORMATION

ACILITY NAME: HOLLENBECK PALMS

DDRESS: 573 S. BOYLE AVENUE, LOS ANGELES, CA 90033 PHONE: (323) 263-6195

ROVIDER NAME: HOLLENBECK PALMS FACILITY OPERATOR: N/A

ELATED FACILITIES: N/A RELIGIOUS AFFILIATION: N/A

EAR OPENED: 1895 NO. OF ACRES: 8 MULTI-STORY: Y SINGLE STORY: N/A BOTH: N/A

ILES TO SHOPPING CTR: 3 MILES TO HOSPITAL: 1

UMBER OF UNITS

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	61	ASSISTED LIVING	SERVICES AVAILABLE
APARTMENTS - 1 BDRM	63	SKILLED NURSING	106
APARTMENTS - 2 BDRM	22	SPECIAL CARE	
COTTAGES/HOUSES		DESCRIBE SPECIAL CARE:	
% OCCUPANCY AT YEAR END	96%		

YPE OF OWNERSHIP: [X] NOT FOR PROFIT [ ] FOR PROFIT ACCREDITED: [X] Y [ ] N

ORM OF CONTRACT: [ ] LIFE CARE [X] CONTINUING CARE [X] FEE FOR SERVICE

[X] ASSIGN ASSETS [ ] EQUITY [X] ENTRY FEE [ ] RENTAL

EFUND PROVISIONS (check all that apply): [X] 85% [ ] 75% [ ] 50% [X] PRORATED TO 0% [ ] OTHER:

ANGE OF ENTRANCE FEES: $ 31,100 TO $ 731,115 **LONG-TERM CARE INSURANCE REQUIRED?** [ ] Y [X] N

NTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

OMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE
EAUTY/BARBER SHOP	Y	Y
ILLIARD ROOM	Y	
OWLING GREEN	N	
ARD ROOMS	Y	
HAPEL	Y	
OFFEE SHOP	Y	Y
RAFT ROOMS	Y	
XERCISE ROOM	Y	
OLF COURSE ACCESS	N	
IBRARY	Y	
UTTING GREEN	Y	
HUFFLEBOARD	Y	
PA	Y	
WIMMING POOL-INDOOR	N	
WIMMING POOL-OUTDOOR	N	
ENNIS COURT	N	
/ORKSHOP	Y	
THER COMPUTER ROOM, PHARMACY		

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	N	Y
NUMBER OF MEALS/DAY	2 or 3	
SPECIAL DIETS AVAILABLE	Y	
24-HOURS EMERGENCY RESPONSE	Y	
ACTIVITIES PROGRAM	Y	
ALL UTILITIES EXCEPT PHONE	Y	
APARTMENT MAINTENANCE	Y	
CABLE TV	Y	
LINENS FURNISHED	N	Y
LINENS LAUNDERED	Y	
MEDICATION MANAGEMENT	N	Y
NURSING/WELLNESS CLINIC	Y	
PERSONAL NURSING/HOME CARE	N	Y
TRANSPORTATION-PERSONAL	N	Y
TRANSPORTATION-PREARRANGED	N	Y
OTHER		

ll providers are required by Health and Safety Code section 1789.1 to provide this report to prospective esidents before executing a deposit agreement or continuing care contract, or receiving any payment. Many ommunities are part of multi-facility operations which may influence financial reporting. Consumers are ncouraged to ask questions of the continuing care retirement community that they are considering and to eek advice from professional advisors.

PROVIDER NAME: HOLLENBECK PALMS

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$ 14,481,906	$ 18,748,637	$ 14,562,411	$ 15,644,554
LESS OPERATING EXPENSES (excluding depreciation, amortization & interest)	$ (12,361,459)	$ (13,060,427)	$ (15,780,714)	$ (13,681,136)
NET INCOME FROM OPERATIONS	$ 2,120,447	$ 5,688,210	$ (1,218,303)	$ 1,963,418
LESS INTEREST EXPENSE	$ (1,159,252)	$ (1,095,646)	$ 1,090,196	$ (1,060,708)
PLUS CONTRIBUTIONS	$ 897,558	$ 1,278,206	$ 1,286,823	$ 3,613,021
PLUS NON-OPERATING INCOME(EXPENSES) (excluding extraordinary items)	$ 3,121,594	$ 5,646,057	$ 5,646,057	$ 5,646,057
NET INCOME(LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$ 4,980,347	$ 11,516,827	$ 6,804,773	$ 10,161,788
NE[illegible]H FLOW FROM ENTRANCE FEES (t[illegible]posits less refunds)	$ 2,104,950	$ 2,179,059	$ 1,529,800	$ 2,554,620

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	PERIOD
California Statewide Communities Development Authority	22,995,000	4.1% - 5.59%	02/23/2007	01/10/2037	30 Year

FINANCIAL RATIOS (Based on CCAC Formulas)

	2002 CCAC MEDIANS 50TH PERCENTILE (optional)	2011	2012	2013
DEBT TO ASSET RATIO		0.3163	0.3124	0.2944
OPERATING RATIO		0.71	1.10	0.88
DEBT SERVICE COVERAGE RATIO		2.91	1.18	4.29
DAYS CASH-ON-HAND RATIO		1,105	889	1,080

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2010	%	2011	%	2012	%	2013
STUDIO	$ 2,175	0.00%	$ 2,175	2.99%	$ 2,240	4.02%	$ 2,330
ONE BEDROOM	$ 2,465	3.00%	$ 2,539	3.0%	$ 2,615	4.02%	$ 2,720
TWO BEDROOM	$ 3,135	3.00%	$ 3,229	3.00%	$ 3,326	4.00%	$ 3,459
COTTAGE/HOUSE	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -
ASSISTED LIVING	$ 1,360	5.15%	$ 1,430	5.03%	$ 1,502	3.99%	$ 1,562
SKILLED NURSING	$ 246	4.88%	$ 258	5.04%	$ 271	5.17%	$ 285
SPECIAL CARE	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -

COMMENTS FROM PROVIDER:

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		REDISENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
(1)	Monthly Service Fee At beginning of reporting period: (indicate range, if applicable)	\$2,360 To \$7,490	\$588 To \$2,665	\$6,300 To \$1,140
(2)	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4% To 4.5%	4.5% To 4.5%	4.5% To 4.5%

☐ Check here if monthly service fee at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community)

(3) Indicate the date the fee increase was implemented: July 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

(4) Check each of the appropriate boxes:

[/] Each fee increase is based on the provider's projected costs, prior year per capita costs, and econimic indicators.

[/] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[/] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[/] At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

[/] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[/] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

(5) On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

METHODOLOGY USED TO CALCULATE ADJUSTMENTS IN MONTHLY CARE FEES

Monthly care fees are adjusted annually in connection with the preparation of the Revenue and Expense Budget for the coming fiscal year. In addition to analyzing actual results from prior fiscal years and the first 10 months of the current fiscal year, U.S. Financial Data obtained through reports from the St. Louis Federal Reserve Bank is considered. This data would specially include information from the Producer Price Index and the Employment Cost Index. The data from the U.S. Department of Labor dealing with wage rates is also included in the budget process. Monthly care fees are adjusted according to the conclusions drawn based on the information obtained.

PER CAPITA COST

Provider Name: HOLLENBECK PALMS
Fiscal Year Ended: June 30, 2013

Total Operating Cost (Form 5-4)	16,138,507
Mean Number of all Residents (Form 1-1)	219
Per Capita cost	73,692

The California Statewide Communities Development Authority issued Revenue bonds in February 2007 for the purpose of financing the construction of Magnolia Court, a 32 unit RCFE building, in Hollenbeck Palms. The underwriter is Citigroup Global Markets Inc. and the guarantor is Radian Asset Assurance Inc. The bond funds were loaned to Hollenbeck Palms pursuant to a loan agreement between the California Statewide Community Development Authority, Hollenbeck Palms, and Wells Fargo Bank, the Trustee. The funds are held in a designated fund by Wells Fargo Bank, the Trustee. The Department of Social Services approved the project on September 13, 2006.

As of June 30, 2009, the Magnolia Court construction project was completed.

The amount of $1,618,402 on page 9 line 1 of the annual reserve certification is the actual interest paid for the bonds during the fiscal year ending 06/30/2013. The amount of interest has been added to our reserve amount.

573 S. Boyle Avenue, Los Angeles, CA 90033
Tel. (323) 263-6195 Fax (323) 268-1248
www.HollenbeckPalms.com

HOLLENBECK PALMS

NOTES TO CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

1. MISSION STATEMENT

Hollenbeck Palms (the "Palms") is committed to providing a means of residence for those in the later years of their lives that encompasses a healthily 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. The Palms is recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes pursuant to Section 501(a) of the IRC.

2. OPERATIONS

Operations –The Palms is incorporated as a California nonprofit public benefit corporation, and owns and operates a retirement community and skilled nursing facility in Los Angeles, California. Residents receive residence, services and care under two plans. The facilities include approximately 145 residential units and 106 skilled nursing beds.

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

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

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

3. CONTINUING CARE RESERVE REPORT SCHEDULES

Basis of Presentation –California Health and Safety Code Section 1792 requires continuing care contract providers to establish and maintain statutory and refund reserves to ensure financial resources will be available to fulfill contractual obligations to residents. The continuing care reserve report schedules (the "Schedules"), which calculate reserve requirements, are prepared in accordance with the Annual Reserve Report Instructions provided by the State of California Department of Social Services. The Schedules are required to be submitted annually to the California Department of Social Services within four months of year-end.

4. EVIDENCE OF FIDELITY BOND

The Palms is in compliance with the fidelity bond requirement through their commercial crime insurance policy purchased through a commercial insurance carrier.

ACORD®

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 12/6/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER
Lewis and Associates
700 West Center
License #0797015
Visalia CA 93291

RECEIVED
NOV 01 2013
CONTINUING CARE
CONTRACTS BRANCH

CONTACT NAME: Victoria Smallwood CPIW, CISR
PHONE (A/C, No, Ext): (559) 733-7272 FAX (A/C, No): (559) 733-5612
E-MAIL ADDRESS: vickis@since1927.com

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A: Health Care Industry Liability	
INSURER B: GuideOne Insurance	
INSURER C: Torus Specialty Insurance	4776
INSURER D:	
INSURER E:	
INSURER F:	

INSURED
Hollenbeck Palms
573 S. Boyle Avenue
Los Angeles CA 90033

COVERAGES CERTIFICATE NUMBER: 2012 GL/PL Auto & Excess REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY X CLAIMS-MADE ☐ OCCUR X $10K Indemnity Only Ded. X Professional Liability GEN'L AGGREGATE LIMIT APPLIES PER: X POLICY ☐ PRO-JECT ☐ LOC			HCA-CA02-0012-CM-06	12/1/2012	12/1/2013	EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurrence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG 	$ 1,000,000 $ 100,000 $ 5,000 $ $ 3,000,000 $ $
	AUTOMOBILE LIABILITY X ANY AUTO ☐ ALL OWNED AUTOS ☐ SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS			1762-899	12/1/2012	12/1/2013	COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident) Non-owned	$ 1,000,000 $ $ $ $
C	X UMBRELLA LIAB ☐ OCCUR ☐ EXCESS LIAB X CLAIMS-MADE ☐ DED X RETENTION $ 10,000			36285B121AHL	12/1/2012	12/1/2013	EACH OCCURRENCE AGGREGATE 	$ 7,000,000 $ $
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? ☐ (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS ☐ OTH-ER ☐ E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT	 $ $ $

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER

Hollenbeck Palms
William Heideman
573 S. Boyle Avenue
Los Angeles, CA 90033

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

V Smallwood CPIW, CIS Victoria L. Smallwood

© 1988-2010 ACORD CORPORATION. All rights reserved.
The ACORD name and logo are registered marks of ACORD