

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:

06/30/15

PROVIDER(S): HOLLENBECK PALMS

RECEIVED
OCT 30 2015

CCRC(S): _____

CONTINUING CARE
CONTRACTS BRANCH

CONTACT PERSON: JEFFREY YOUNG

TELEPHONE NO.: (323) 263-6195

EMAIL: JYOUNG@HAPALMS.COM

A complete annual report must consist of 3 copies of all of the following:

Annual Report Checklist.

Annual Provider Fee in the amount of: \$ 14,525

If applicable, late fee in the amount of: \$ _____

Certification by the provider's **Chief Executive Officer** that:

The reports are correct to the best of his/her knowledge.

Each continuing care contract form in use or offered to new residents has been approved by the Department.

The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.

Evidence of the provider's fidelity bond, as required by H&SC section 1789B. LIABILITY INSURANCE

Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for **each** community.

Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
11/25/2014

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 License # 0797015 Lewis & Assoc. Ins. Brokers, Inc. 700 W. Center Avenue Visalia, CA 93291	CONTACT NAME: Vicki Smallwood PHONE (A/C, No, Ext): (559) 733-7272 E-MAIL ADDRESS:	FAX (A/C, No): (559) 733-5612
	INSURER(S) AFFORDING COVERAGE	
INSURED Hollenbeck Palms 573 S. Boyle Avenue Los Angeles, CA 90033	INSURER A: Health Care Industry Liability Reciprocal Insurance Company, RRG	NAIC #
	INSURER B: GuideOne Insurance	15032
	INSURER C: Ironshore Specialty Ins. Co	
	INSURER D:	
	INSURER E:	
	INSURER F:	

COVERAGES **CERTIFICATE NUMBER:** **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 INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY			HCA-CA02-0012-CM-08	12/01/2014	12/01/2015	EACH OCCURRENCE \$ 1,000,000
	<input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR						DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000
							MED EXP (Any one person) \$ 5,000
							PERSONAL & ADV INJURY \$
	GEN'L AGGREGATE LIMIT APPLIES PER:						GENERAL AGGREGATE \$ 3,000,000
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC						PRODUCTS - COMP/OP AGG \$
	OTHER:						Prof. Liability \$ 1,000,000
B	AUTOMOBILE LIABILITY			1762899	12/01/2014	12/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000
	<input checked="" type="checkbox"/> ANY AUTO						BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS	<input checked="" type="checkbox"/> SCHEDULED AUTOS					BODILY INJURY (Per accident) \$
	<input checked="" type="checkbox"/> HIRED AUTOS	<input checked="" type="checkbox"/> NON-OWNED AUTOS					PROPERTY DAMAGE (Per accident) \$
	<input checked="" type="checkbox"/> Comp Ded \$1,000	<input checked="" type="checkbox"/> Coll Ded \$1,000					\$
C	<input checked="" type="checkbox"/> UMBRELLA LIAB			TBD	12/01/2014	12/01/2015	EACH OCCURRENCE \$ 7,000,000
	<input type="checkbox"/> EXCESS LIAB	<input checked="" type="checkbox"/> CLAIMS-MADE					AGGREGATE \$
	DED <input checked="" type="checkbox"/> RETENTION \$ 10,000						\$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY						PER STATUTE OTH-ER
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)			Y/N			E.L. EACH ACCIDENT \$
	If yes, describe under DESCRIPTION OF OPERATIONS below			N/A			E.L. DISEASE - EA EMPLOYEE \$
							E.L. DISEASE - POLICY LIMIT \$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached 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 

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HOLLENBECK PALMS

**Report of Independent Auditor and Financial Statements
June 30, 2015 and 2014**



HOLLENBECK PALMS

**Report of Independent Auditor and Financial Statements
June 30, 2015 and 2014**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-27



INDEPENDENT AUDITOR'S REPORT

RECEIVED
OCT 30 2015

CONTINUING CARE
CONTRACTS BRANCH

Board of Trustees of
Hollenbeck Palms

Report on Financial Statements

We have audited the accompanying financial statements and the related notes to the financial statements of Hollenbeck Palms (the Palms) as of June 30, 2015 and 2014 and for the years then ended, as listed in the accompanying table of contents.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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 the Palms as of June 30, 2015 and 2014, 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.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

Glendora, California

October 13, 2015

HOLLENBECK PALMS

STATEMENTS OF FINANCIAL POSITION June 30, 2015 and 2014

	2015	2014
ASSETS:		
Cash and cash equivalents (Notes 2 and 3)	\$ 11,791,663	\$ 2,851,008
Accrued interest receivable	69,059	71,399
Due from residents and third-party payers, less allowance for bad debts of \$89,012 and \$192,674 for 2015 and 2014, respectively	1,691,232	1,734,066
Pledges and other contributions receivable less discount (Note 4)	988,284	1,470,421
Prepaid expenses and other assets	367,633	285,747
Cash reserved for debt service (Note 3)	2,428,492	1,626,704
Investments (Note 5)	43,444,976	45,114,183
Property and equipment, net (Note 6)	27,842,035	27,179,061
TOTAL	\$ 88,623,374	\$ 80,332,589
LIABILITIES AND NET ASSETS:		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,911,878	\$ 2,381,841
Accrued interest payable	410,084	421,164
Deferred revenue from entrance fees (Note 2)	4,106,414	3,928,237
Assigned assets, net (Note 2)	5,842,900	6,929,952
Long term debt (Note 9)	31,815,000	22,420,000
Total liabilities	45,086,276	36,081,194
NET ASSETS (Note 2)		
Unrestricted	39,018,809	40,189,205
Temporarily restricted	3,744,966	3,288,867
Permanently restricted	773,323	773,323
Total net assets	43,537,098	44,251,395
TOTAL	\$ 88,623,374	\$ 80,332,589

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

HOLLENBECK PALMS
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>
REVENUES, GAINS, AND OTHER SUPPORT:				
Resident service fees, including amortization of entrance fees (Note 2)	\$ 13,390,128	\$	\$	\$ 13,390,128
Investment income, including realized gains (Note 5)	3,077,979	107,110		3,185,089
Donor contributions	105,267	365,473		470,740
Other	142,808			142,808
Total revenues, gains, and other support	<u>16,716,182</u>	<u>472,583</u>	<u>-</u>	<u>17,188,765</u>
EXPENSES (Note 13):				
Resident care	6,018,695			6,018,695
General and administrative	4,148,365			4,148,365
Engineering and plant	1,076,423			1,076,423
Dietary	2,329,921			2,329,921
Housekeeping	781,678			781,678
Depreciation	1,192,885			1,192,885
Bond interest	999,714			999,714
Members' interest (Note 2)	170,208			170,208
Total expenses	<u>16,717,888</u>	<u>-</u>	<u>-</u>	<u>16,717,888</u>
OTHER GAIN-Resident contributions (Note 2)	484,240		-	484,240
CHANGE IN NET ASSETS FROM OPERATIONS				
	482,534	472,583	-	955,117
OTHER INCOME:				
Unrealized loss on investments (Note 5)	(1,389,825)	(16,484)		(1,406,309)
Change in pension liability (Note 7)	(263,105)			(263,105)
CHANGE IN NET ASSETS				
	(1,170,396)	456,099	-	(714,297)
NET ASSETS:				
Beginning of year	40,189,205	3,288,867	773,323	44,251,395
End of year	<u>\$ 39,018,809</u>	<u>\$ 3,744,966</u>	<u>\$ 773,323</u>	<u>\$ 43,537,098</u>

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

HOLLENBECK PALMS

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
REVENUES, GAINS, AND OTHER SUPPORT:				
Resident service fees, including amortization of entrance fees (Note 2)	\$ 13,502,001	\$	\$	\$ 13,502,001
Investment income, including realized gains (Note 5)	2,542,802	59,049		2,601,851
Donor contributions	133,600	848,732		982,332
Other	140,827			140,827
Total revenues, gains, and other support	<u>16,319,230</u>	<u>907,781</u>	<u>-</u>	<u>17,227,011</u>
EXPENSES (Note 13):				
Resident care	5,976,808			5,976,808
General and administrative	3,892,746			3,892,746
Engineering and plant	1,028,551			1,028,551
Dietary	2,288,821			2,288,821
Housekeeping	719,414			719,414
Depreciation	1,182,497			1,182,497
Bond interest	1,029,544			1,029,544
Members' interest (Note 2)	187,988			187,988
Total expenses	<u>16,306,369</u>	<u>-</u>	<u>-</u>	<u>16,306,369</u>
OTHER GAIN-Resident contributions (Note 2)	<u>268,442</u>	<u>-</u>	<u>-</u>	<u>268,442</u>
CHANGE IN NET ASSETS FROM OPERATIONS	281,303	907,781	-	1,189,084
OTHER INCOME:				
Unrealized gain on investments (Note 5)	2,042,377	185,992		2,228,369
Change in pension liability (Note 7)	<u>333,711</u>			<u>333,711</u>
CHANGE IN NET ASSETS	2,657,391	1,093,773	-	3,751,164
NET ASSETS:				
Beginning of year	<u>37,531,814</u>	<u>2,195,094</u>	<u>773,323</u>	<u>40,500,231</u>
End of year	<u>\$ 40,189,205</u>	<u>\$ 3,288,867</u>	<u>\$ 773,323</u>	<u>\$ 44,251,395</u>

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

HOLLENBECK PALMS

STATEMENTS OF CASH FLOWS For The Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents	\$ 10,625,978	\$ 11,343,804
Entrance fees received from residents	2,197,176	2,076,300
Contributions from donors	105,267	133,600
Investment income received	1,194,924	1,072,504
Processing fees	34,150	22,200
Other cash revenues	142,808	138,679
Cash paid to suppliers and employees	(13,484,096)	(13,640,148)
Interest paid	(1,010,794)	(1,042,937)
Interest paid to members	(178,198)	(188,595)
Net cash used by operating activities	(372,785)	(84,593)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments sold or matured	7,580,231	5,405,649
Investments purchased	(5,851,753)	(3,516,590)
Capital expenditures	(1,855,860)	(881,581)
Net cash provided (used) by investing activities	(127,382)	1,007,478
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for capital improvements	847,610	592,919
Proceeds from issuance of long-term debt	10,000,000	
Payment of long term debt	(605,000)	(575,000)
Net cash provided by financing activities	10,242,610	17,919
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,742,443	940,804
CASH AND CASH EQUIVALENTS - Beginning of year	4,477,712	3,536,908
CASH AND CASH EQUIVALENTS - End of year	\$ 14,220,155	\$ 4,477,712

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
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2015 and 2014

	2015	2014
RECONCILIATION OF CHANGE IN NET ASSETS TO NET		
CASH USED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (714,297)	\$ 3,751,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,192,885	1,182,497
Change in provision for doubtful accounts	(103,662)	(46,037)
Bad debt write-off	434,922	285,640
Unrealized (gain) loss on investments	1,406,309	(2,228,369)
Realized gain on investments	(2,173,335)	(1,514,192)
Increase (decrease) in pension liability	263,105	(333,711)
Other gain-resident contributions	(484,240)	(268,442)
Contributions for financing purposes	(365,473)	(848,732)
Changes in operating assets and liabilities:		
Entrance fee receivable	(249,688)	315,550
Accrued interest receivable	2,340	(15,155)
Amounts due from residents and third-party payers	396,184	(140,813)
Prepaid expenses and other current assets	(81,886)	111,316
Accounts payable and accrued expenses	528,686	190,167
Deferred revenue from entrance fees	178,177	(170,793)
Assigned assets liability	(602,812)	(354,683)
NET CASH USED BY OPERATING ACTIVITIES	\$ (372,785)	\$ (84,593)
SUPPLEMENTAL CASH FLOW INFORMATION:		
Noncash assigned assets	\$ (48,606)	\$ (536,095)

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

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 1 - MISSION STATEMENT:

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, 2015 and 2014, total number of residents was 231 and 219, 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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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 \$484,240 for 2015 and \$268,442 for 2014. Assigned assets were \$5, 842,900 and \$6,929,952 as of June 30, 2015 and 2014, 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 pays 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 2015 and 2014, charity care, which is based on estimated cost per day in excess of service fees received, amounted to \$1,157,904 and \$875,084, respectively.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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 \$4,106,414 and \$3,928,237 as of June 30, 2015 and 2014, 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 was \$249,688 and \$0 as of June 30, 2015 and 2014, respectively. The entrance fees receivable as of June 30, 2015 is due from one resident.

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 presented net of bad debt expense on the Statement of Activities. Receivables associated with resident service fees are written off based on management's evaluation of uncollectible balances.

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 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, 2015 and 2014, 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, 2015 and 2014, respectively.

HOLLENBECK PALMS
NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2015 and 2014

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, 2015 and 2014 respectively, uninsured, uncollateralized deposits were \$2,095,290 and \$822,808. The Palms also holds deposits with a brokerage firm in excess of Securities Investor Protection Corporation ("SIPC") limits. At June 30, 2015 and 2014 respectively, unsecured brokerage deposits were \$3,037,240 and \$2,628,812. 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 years ended June 30, 2015 and June 30, 2014. 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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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 such changes could materially affect the amounts reported in the accompanying balance sheets.

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	10-40 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 \$1,771 and \$5,365 in 2015 and 2014, 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 13.

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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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

Subsequent Events - The Palms has evaluated subsequent events through October 13, 2015, which is the date these financial statements were available to be issued.

NOTE 3 - CASH RESTRICTIONS, DESIGNATIONS AND RESERVATIONS:

Cash and cash equivalents at June 30, 2015 includes \$45,795 temporarily restricted for life care membership purposes and \$1,442,435 temporarily restricted for building projects. The board has designated \$1,976,320 for future building and asset replacement purposes and \$8,006,531 in bond funds for building projects. In addition, \$2,428,492 in bond debt service reserves is 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, 2014 includes \$26,321 temporarily restricted for life care membership purposes. The board has designated \$998,826 for future building and asset replacement purposes and \$720,256 for debt service payments. In addition, \$1,626,704 in bond debt service reserves is 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 1.63%. An allowance for uncollectable amounts has not been recorded based on management's assessment of the donors' creditworthiness. At June 30, the Palms had unconditional promises to give expected to be received in the following periods:

	<u>2015</u>	<u>2014</u>
In one year or less	\$ 231,667	\$ 331,667
Between one and five years	693,401	1,201,667
More than five years	<u>100,000</u>	<u>41,666</u>
Gross unconditional pledges receivable	1,025,068	1,575,000
Less: discount on pledges receivable	<u>(36,784)</u>	<u>(104,579)</u>
Net pledges receivable	<u>\$ 988,284</u>	<u>\$ 1,470,421</u>

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Stocks (Level 1)	\$ 31,001,196	\$ 35,031,012
Bonds (Level 1)	10,263,628	8,356,380
Cash and money market (Level 1)	100,999	
Bank deposits (Level 1)	<u>455,806</u>	<u>454,652</u>
	41,821,629	43,842,044
Annuity and life insurance policies (Level 2)	1,228,935	1,267,819
Investment interest in limited partnership (Level 3)	390,092	
Real estate owned (Level 3)	<u>4,320</u>	<u>4,320</u>
Total investments	<u>\$ 43,444,976</u>	<u>\$ 45,114,183</u>

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 5 - INVESTMENTS: (continued)

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, 2014	Additions	Dispositions	June 30, 2015
Investment interest in limited partnership	\$	\$ 390,092	\$	\$ 390,092
Real estate owned	<u>4,320</u>	<u> </u>	<u> </u>	<u>4,320</u>
	<u>\$ 4,320</u>	<u>\$ 390,092</u>	<u>\$ -</u>	<u>\$ 394,412</u>

The investment interest in limited partnership was measured based on the actual sales price effected in July 2015.

Investment income and gains for investments for the years ended June 30, 2015 and 2014 are composed of the following:

	<u>2015</u>	<u>2014</u>
Dividend and interest income	\$ 1,102,169	\$ 1,178,009
Realized gains on sales of investments, net	2,173,335	1,514,192
Less fees	<u>(90,415)</u>	<u>(90,350)</u>
Net investment income included in operations	3,185,089	2,601,851
Unrealized gains	<u>(1,406,309)</u>	<u>2,228,369</u>
Net investment income	<u>\$ 1,778,780</u>	<u>\$ 4,830,220</u>

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 6 - PROPERTY AND EQUIPMENT:

Property and equipment at June 30, 2015 and 2014 consist of the following:

	2015	2014
Land	\$ 6,766	\$ 6,766
Buildings and improvements	39,937,482	39,789,676
Furniture and equipment	5,758,700	5,702,842
Vehicles	317,360	313,422
Cemetery lots	21,326	21,326
	46,041,634	45,834,032
Less accumulated depreciation	<u>(20,414,846)</u>	<u>(19,338,000)</u>
	25,626,788	26,496,032
Construction in progress	<u>2,215,247</u>	<u>683,029</u>
	<u>\$ 27,842,035</u>	<u>\$ 27,179,061</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$1,192,885 and \$1,182,497.

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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 7 - RETIREMENT PLANS: (continued)

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.

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:

	2015	2014
Change in benefit obligation:		
Benefit obligation - beginning of year	\$ 7,279,393	\$ 7,087,322
Service cost	345,891	359,176
Interest cost	314,809	327,347
Benefits paid	(1,804,483)	(792,256)
Actuarial loss	17,964	297,804
Benefit obligation - end of year	<u>\$ 6,153,574</u>	<u>\$ 7,279,393</u>
Change in plan assets:		
Fair value of assets - beginning of year	\$ 7,010,174	\$ 6,316,790
Actual return on plan assets	235,061	1,048,140
Employer contribution	362,550	437,500
Benefits paid	(1,804,483)	(792,256)
Fair value of assets - end of year	<u>\$ 5,803,302</u>	<u>\$ 7,010,174</u>
Funded status	<u>\$ (350,272)</u>	<u>\$ (269,219)</u>

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 7 - RETIREMENT PLANS: (continued)

	2015	2014
Amounts recognized in the statement of financial position are included in:		
Accounts payable and accrued liabilities	<u>\$ (350,272)</u>	<u>\$ (269,219)</u>
Amounts recognized in accumulated unrestricted net assets consist of:		
Actuarial loss	<u>\$ 1,213,584</u>	<u>\$ 950,429</u>
Source of change in the statement of net activities consist of:		
Actuarial (gain) loss arising during period	<u>\$ 263,105</u>	<u>\$ (333,711)</u>
Components of net periodic benefit cost:		
Service cost	\$ 345,891	\$ 359,176
Interest cost	314,809	327,347
Expected return on plan assets	(498,549)	(461,897)
Amortization of prior service cost	N/A	N/A
Amortization of loss	<u>18,297</u>	<u>45,272</u>
Benefit obligation - end of year	<u>\$ 180,448</u>	<u>\$ 269,898</u>

Accumulated Benefit Obligation

The accumulated benefit obligation for the Palms was \$6,153,574 and \$7,279,393 at June 30, 2015 and 2014, 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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 7 - RETIREMENT PLANS: (continued)

Accumulated Benefit Obligation (continued)

Weighted-average assumptions used to determine benefit obligations at June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate (on benefit obligations)	4.50%	4.50%
Expected long-term rate of return on plan assets	7.00%	7.25%
Rate of compensation increase	3.00%	3.00%

Weighted-average assumptions used to determine net periodic pension cost at June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate (on net periodic costs)	4.50%	4.75%
Expected long-term rate of return on plan assets	7.25%	7.25%
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.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 7 - RETIREMENT PLANS: (continued)

Contributions

The Palms expects to contribute to the Plan the ERISA recommended amount of approximately \$300,000 in the next year.

Estimated Future Benefit Payments

The estimated future benefit payments are as follows:

Years beginning July 1,	
2016	\$ 516,381
2017	392,469
2018	440,638
2019	364,670
2020	406,748
2021-2025	2,497,495

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, 2016 is \$51,705.

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 \$44,031 and \$50,820 in 2015 and 2014, 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.

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, 2015 and 2014, were \$25,068 and \$22,639, respectively.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 8 - CONTINGENCIES:

Workers' Compensation Self-Insurance

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 \$543,725 and \$461,967 in 2015 and 2014, 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 was reduced to \$1,626,635. The balances as of June 30, 2015 and 2014 have increased by interest earned and adjusted for changes in fair value.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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:

<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>
2016	\$ 635,000	\$ 984,201	\$ 1,619,201
2017	665,000	957,849	1,622,849
2018	695,000	929,919	1,624,919
2019	720,000	900,381	1,620,381
2020	755,000	869,421	1,624,421
Thereafter	<u>18,345,000</u>	<u>8,578,339</u>	<u>26,923,339</u>
Totals	<u>\$ 21,815,000</u>	<u>\$ 13,220,110</u>	<u>\$ 35,035,110</u>

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, 2015 and 2014 approximated \$20,332,463 and \$20,282,409, respectively. The carrying amounts of these bonds payable at June 30, 2015 and 2014 were \$21,815,000 and \$22,420,000, respectively.

Private Financing Bonds

On July 17, 2014, the Palms issued \$10,000,000 in private financing bonds 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. Revenues are pledged to punctual payment of bond principal and interest.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

NOTE 9 - LONG TERM DEBT: (continued)

Private Financing Bonds (continued)

The following table sets forth the amounts required to be made available at the principle 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</u> <u>Fiscal Year Ended</u>	<u>Principal Payments Due</u> <u>Within Fiscal Year</u>	<u>Interest Components Due</u> <u>Within Fiscal Year</u>	<u>Total Payments</u>
2016	\$	\$ 458,000	\$ 458,000
2017	180,000	458,000	638,000
2018	190,000	449,756	639,756
2019	200,000	441,054	641,054
2020	205,000	431,894	636,894
Thereafter	<u>9,225,000</u>	<u>6,168,802</u>	<u>15,393,802</u>
Totals	<u>\$ 10,000,000</u>	<u>\$ 8,407,506</u>	<u>\$ 18,407,506</u>

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 carrying value at June 30, 2015 was \$10,000,000 which approximated fair value.

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. The bonded debt issuance of \$10,000,000 is primarily designated for the skilled nursing facility renovation project. 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, 2015, related to the Magnolia Court project, \$24,690,346 had been expended for construction costs, \$1,683,019 had been expended to pay bond issuance costs and \$6,215,000 had been expended to retire debt. A balance of \$1,626,702, including additional interest income, remains for future debt service payments. As of June 30, 2015, related to the skilled nursing facility renovation project, \$1,532,213 has been expended for project costs. In addition, as of June 30, 2015, the Board had designated \$8,006,531 of unrestricted net assets including debt financing proceeds, for project costs. \$801,790 is reserved for future debt service payments. As of June 30, 2015, the Palms was committed under construction agreements for the skilled nursing facility renovation project totaling approximately \$6,200,000.

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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, 2015 and 2014 consisted of donor-restricted endowment funds; temporarily restricted subject to purpose restrictions of \$1,305,932 and \$1,222,627, respectively, and permanently restricted by explicit donor stipulation of \$773,323. Changes in endowment net assets 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, 2015 or 2014.

HOLLENBECK PALMS

**NOTES TO FINANCIAL STATEMENTS
For The Years Ended June 30, 2015 and 2014**

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, 2013	\$ 977,586	\$ 773,323	\$ 1,750,909
Investment income	59,049		59,049
Net appreciation (realized and unrealized)	185,992		185,992
Endowment net assets, June 30, 2014	1,222,627	773,323	1,995,950
Investment income	99,789		99,789
Net appreciation (realized and unrealized)	(16,484)		(16,484)
Endowment net assets, June 30, 2015	\$ 1,305,932	\$ 773,323	\$ 2,079,255

HOLLENBECK PALMS

NOTES TO FINANCIAL STATEMENTS For The Years Ended June 30, 2015 and 2014

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:

	<u>2015</u>	<u>2014</u>
Patient service revenue:		
Medi-Cal program	\$ 5,608,144	\$ 4,589,724
Medicare program	2,290,361	2,731,078
Other	3,424,947	3,514,381
Total patient service revenue	<u>11,323,452</u>	<u>10,835,183</u>
Less contractual provisions	(4,096,947)	(3,519,903)
Less bad debt expense:		
Medi-Cal program	(129,853)	(70,418)
Medicare program	(173,138)	(80,661)
Other	(28,270)	(88,524)
Total bad debt expense	<u>(331,261)</u>	<u>(239,603)</u>
Net patient service revenue	<u>\$ 6,895,244</u>	<u>\$ 7,075,677</u>

For the year ended June 30, 2015, the Palms derived 36% of its patient service revenue from Medi-Cal, 20% from Medicare and 45% from other sources. For the year ended June 30, 2014, the Palms derived 30% of its patient service revenue from Medi-Cal, 24% from Medicare and 46% from other sources. The aggregate amount due from Medi-Cal and Medicare at June 30, 2015 and 2014, is \$1,032,910 and \$1,371,043, 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 Years Ended June 30, 2015 and 2014

NOTE 13 - CLASSIFICATION OF EXPENSES:

2015	Programs		Total
	Board and Care	Skilled Nursing Facility	
Resident care	\$ -	\$ 5,270,998	\$ 5,270,998
Assisted resident living	747,697	-	747,697
General and administrative	2,652,314	1,496,051	4,148,365
Engineering and plant	839,610	236,813	1,076,423
Dietary	1,489,751	840,170	2,329,921
Housekeeping	609,709	171,969	781,678
Depreciation	930,450	262,435	1,192,885
Bond interest	999,714	-	999,714
Members' interest	170,208	-	170,208
Total expenses	<u>\$ 8,439,453</u>	<u>\$ 8,278,436</u>	<u>\$ 16,717,888</u>

2014	Programs		Total
	Board and Care	Skilled Nursing Facility	
Resident care	\$ -	\$ 5,282,398	\$ 5,282,398
Assisted resident living	694,410	-	694,410
General and administrative	2,335,071	1,557,675	3,892,746
Engineering and plant	802,270	226,281	1,028,551
Dietary	1,373,037	915,784	2,288,821
Housekeeping	561,143	158,271	719,414
Depreciation	922,348	260,149	1,182,497
Bond Interest	1,029,544	-	1,029,544
Members' interest	187,988	-	187,988
Total expenses	<u>\$ 7,905,811</u>	<u>\$ 8,400,558</u>	<u>\$ 16,306,369</u>

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Hollenbeck Palms

***Continuing Care Reserve Report Schedules as
of and for the Year Ended June 30, 2015, and
Independent Auditors' Report***

HOLLENBECK PALMS

TABLE OF CONTENTS

	Page
CERTIFICATION BY CHIEF EXECUTIVE OFFICER	1
INDEPENDENT AUDITORS' REPORT	2
CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2015:	
Form 1-1 Resident Population	3
Form 1-2 Annual Provider Fee	3
Form 5-1 Long-Term Debt Incurred in a Prior Fiscal Year	4
Two-way Reconciliation in Support of Form 5-1	5
Form 5-2 Long-Term Debt Incurred During Fiscal Year	6
Two-way Reconciliation in Support of Form 5-2	7
Form 5-3 Calculation of Long-Term Debt Reserve Amount	8
Form 5-4 Calculation of Net Operating Expenses	9
Form 5-5 Annual Reserve Certification	10
Two-way Reconciliation in Support of Form 5-5	11
Continuing Care Retirement Community Disclosure Statement	12-13
Form 7-1 Report on CCRC Monthly Service Fees	14
Addendum Methodology Used to Calculate Adjustments in Monthly Care Fees	15
Per Capita Cost	16
Bonds Issuance Statement	17
Notes to Continuing Care Reserve Report Schedules	18

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
Fiscal Year Ended June 30, 2015

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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



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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, 2015. 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, 2015, 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 19, 2015

**FORM 1-1
RESIDENT POPULATION**

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	219
[2]	Number at end of fiscal year	231
[3]	Total Lines 1 and 2	450
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	225
All Residents		
[6]	Number at beginning of fiscal year	219
[7]	Number at end of fiscal year	231
[8]	Total Lines 6 and 7	450
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	225
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> 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	\$16,717,888
[a]	Depreciation	\$1,192,885
[b]	Debt Service (Interest Only)	\$999,714
[2]	Subtotal (add Line 1a and 1b)	\$2,192,598
[3]	Subtract Line 2 from Line 1 and enter result.	\$14,525,290
[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)	\$14,525,290
[6]	Total Amount Due (multiply Line 5 by .001)	\$14,525

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	\$605,000	\$1,010,794	\$0	\$1,615,794
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$1,010,794	\$0	\$1,615,794

(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, 2015

AMOUNTS FROM FINANCIAL STATEMENTS

Total cash paid for bond interest expense As reported on Form 5-1	\$ 1,010,794
Amount of cash paid reducing accrued interest expense for amounts accrued in prior year	(421,164)
Increase to accrued interest expense (5 months accrual of 6 months interest due for February to July 2015)	<u>410,084</u>
Bond interest expense per Statement of Activities, Page 4:	<u><u>\$ 999,714</u></u>
Take the next year's interest component X 5/12	984,201
	5
	<u>12</u>
	<u>410,084</u>

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

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1	07/01/14	\$246,811	\$229,000	2	\$458,000
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$246,811	\$229,000	2	\$458,000

(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

HOLLENBECK PALMS
 TWO-WAY RECONCILIATION IN SUPPORT OF FORM 5-2
 For the fiscal year ended June 30, 2015

AMOUNTS FROM FINANCIAL STATEMENTS

Total cash paid for bond interest expense As reported on Form 5-2	\$ 246,811
Amount of cash paid reducing accrued interest expense for amounts accrued in prior year	-
Increase to accrued interest expense (5 months accrual of 6 months interest due for February to July 2015)	190,833
Less: bond interest capitalized in fixed assets during construction period	<u>(437,644)</u>
Bond interest expense for this issue per Statement of Activities, Page 4:	<u><u>\$ 0</u></u>

Take the next year's interest component X 5/12	458,000
	5
	<u>12</u>
	190,833

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

Line	TOTAL
1 Total from Form 5-1 bottom of Column (e)	<u>\$1,615,794</u>
2 Total from Form 5-2 bottom of Column (e)	<u>\$458,000</u>
3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<u>N/A</u>
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>\$2,073,794</u></u>

PROVIDER: HOLLENBECK PALMS

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	<u>\$16,717,888</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	<u>\$1,010,794</u>
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	<u>\$1,192,885</u>
	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	<u>\$2,203,679</u>
4	Net Operating Expenses	<u>\$14,514,209</u>
5	Divide Line 4 by 365 and enter the result.	<u>\$39,765</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$2,982,372</u>

PROVIDER: HOLLENBECK PALMS
COMMUNITY: HOLLENBECK PALMS

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: HOLLENBECK PALMS
 Fiscal Year Ended: 06/30/15

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the fiscal year ended 06/30/15 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$2,073,794
[2] Operating Expense Reserve Amount	\$2,982,372
[3] Total Liquid Reserve Amount:	\$5,056,166

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	2,428,492	11,791,663
[5] Investment Securities		10,263,628
[6] Equity Securities		31,001,196
[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]	2,428,492 [12]	53,056,487
Reserve Obligation Amount: [13]	2,073,794 [14]	2,982,372
Surplus/(Deficiency): [15]	354,698 [16]	50,074,115

Signature: _____

(Authorized Representative)

Date: _____

(Title)

HOLLENBECK PALMS
TWO-WAY RECONCILIATION IN SUPPORT OF FORM 5-5
For the fiscal year ended June 30, 2015

	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>	<u>Total</u>
AMOUNTS FROM FINANCIAL STATEMENTS:			
Cash and cash equivalents, per Statement of Financial Position			<u>14,220,155</u>
Allocated to Debt Service Reserve, Line [4]	2,428,492		2,428,492
Allocated to Operating Reserve, Line [4]		11,791,663	11,791,663
Total Cash and cash equivalents on Form 5-5	<u>2,428,492</u>	<u>11,791,663</u>	<u>14,220,155</u>
Investments, per Statement of Financial Position			<u>43,444,976</u>
Components of Investments, per Footnote #5			
Bonds (Investment Securities), Form 5-5, Operating Reserve, Line [5]		10,263,628	10,263,628
Stocks (Equity Securities), Form 5-5, Operating Reserve, Line [6]		31,001,196	31,001,196
Cash and Money Market (restricted use; not reported on Form 5-5)			100,999
Bank Deposits (restricted use; not reported on Form 5-5)			455,806
Investment in limited partnership (restricted use; not report on Form 5-5)			390,092
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)			1,228,935
Total Investments	<u>-</u>	<u>41,264,824</u>	<u>43,444,976</u>
Total Amount of Qualifying Assets, Line [11]	<u>2,428,492</u>	<u>53,056,487</u>	

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**CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT
GENERAL INFORMATION**

FACILITY NAME: HOLLENBECK PALMS
 ADDRESS: 573 S. BOYLE AVENUE, LOS ANGELES, CA 90033 PHONE: (323) 263-6195
 PROVIDER NAME: HOLLENBECK PALMS FACILITY OPERATOR: N/A
 RELATED FACILITIES: N/A RELIGIOUS AFFILIATION: N/A
 YEAR OPENED: 1895 NO. OF ACRES: 8 MULTI-STORY: Y SINGLE STORY: N/A BOTH: N/A
 MILES TO SHOPPING CTR: 3 MILES TO HOSPITAL: 1

NUMBER OF UNITS

INDEPENDENT LIVING	UNITS	HEALTH CARE	SERVICES AVAILABLE
APARTMENTS - STUDIO	<u>59</u>	ASSISTED LIVING	<u>106</u>
APARTMENTS - 1 BDRM	<u>64</u>	SKILLED NURSING	
APARTMENTS - 2 BDRM	<u>22</u>	SPECIAL CARE	
COTTAGES/HOUSES		DESCRIBE SPECIAL CARE:	
% OCCUPANCY AT YEAR END	<u>96%</u>		

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE

ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (check all that apply): 85% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 38,150 TO \$ 913,479 LONG-TERM CARE INSURANCE REQUIRED? Y N

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

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement):

Attends all board meetings and sub-committee meetings and a member of Residents Executive Council

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<input type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOURS EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
OTHER <u>COMPUTER ROOM, PHARMACY</u>					

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

PROVIDER NAME: HOLLENBECK PALMS

	FYE 2012	FYE 2013	FYE 2014	FYE 2015
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$ 14,562,411	\$ 15,644,554	\$ 15,493,534	\$ 15,468,833
LESS OPERATING EXPENSES (excluding depreciation, amortization & interest)	\$ (15,780,714)	\$ (13,681,136)	\$ (13,906,339)	\$ (14,355,081)
NET INCOME FROM OPERATIONS	\$ (1,218,303)	\$ 1,963,418	\$ 1,587,195	\$ 1,113,752
LESS INTEREST EXPENSE	\$ 1,090,196	\$ (1,060,708)	\$ (1,029,544)	\$ (999,714)
PLUS CONTRIBUTIONS	\$ 1,286,823	\$ 3,613,021	\$ 1,250,773	\$ 954,980
PLUS NON-OPERATING INCOME(EXPENSES) (excluding extraordinary items)	\$ 1,515,772	\$ 4,221,028	\$ 4,971,047	\$ 2,613,600
NET INCOME(LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	\$ 6,804,773	\$ 10,161,788	\$ 6,779,471	\$ 3,682,618
NET CASH FLOW FROM ENTRANCE FEES (total deposits less refunds)	\$ 1,529,800	\$ 2,554,620	\$ 2,076,300	\$ 2,197,176

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	21,815,000 10,000,000	4.1% - 5.59% 4.58%	02/23/2007 07/01/2014	01/10/2037 02/01/2044	30 Year 30 Year

FINANCIAL RATIOS (Based on CCAC Formulas)

	2013 CCAC MEDIANS 50TH PERCENTILE (optional)	2013	2014	2015
DEBT TO ASSET RATIO		0.2944	0.2791	0.3518
OPERATING RATIO		0.88	0.91	0.94
DEBT SERVICE COVERAGE RATIO		4.29	2.33	1.68
DAYS CASH-ON-HAND RATIO		1,080	1,175	1,287

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

	2012	%	2013	%	2014	%	2015
STUDIO	\$ 2,240	4.02%	\$ 2,330	4.51%	\$ 2,435	3.49%	\$ 2,520
ONE BEDROOM	\$ 2,615	4.02%	\$ 2,720	4.41%	\$ 2,840	3.49%	\$ 2,939
TWO BEDROOM	\$ 3,326	4.00%	\$ 3,459	4.51%	\$ 3,615	4.01%	\$ 3,760
COTTAGE/HOUSE	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -
ASSISTED LIVING	\$ 1,502	3.99%	\$ 1,562	4.48%	\$ 1,632	3.49%	\$ 1,689
SKILLED NURSING	\$ 271	5.17%	\$ 285	4.56%	\$ 298	4.03%	\$ 310
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)	\$2,540 To \$8,101	\$633 To \$2,868	\$6,810 To \$12,360
(2) Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.0% To 4.0%	4.0% To 4.0%	4.0% To 4.0%

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, 2015
(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 economic 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, 2015

Total Operating Cost (Form 5-4)	16,717,888
Mean Number of all Residents (Form 1-1)	225
Per Capita cost	74,302



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 California Statewide Communities Development Authority issued Revenue bonds in July 2014 for the purpose of financing the construction of the skilled nursing facility. 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 Office of Statewide Health Planning and Development approved the project on March 18, 2015.

The amount of \$2,073,794 on page 10 line 1 of the annual reserve certification includes \$605,000 of principal and \$1,468,794 of interest paid for the bonds during the fiscal year ending 06/30/2015. The amount of interest has been added to our reserve amount.

HOLLENBECK PALMS

NOTES TO CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

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 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. 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 146 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.

KEY INDICATORS REPORT
HOLLENBECK PALMS #331
FORM 8-1

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02 2015

	Fiscal Year 06/30										Preferred Trend Indicator
	Projected					Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)	94%	94%	89%	88%	89%	91%	96%	98%	98%	98%	98%
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)	-5%	-6%	-9%	-14%	-16%	-7%	-8%	-8%	-9%	-9%	-9%
3. Net Operating Margin - Adjusted (%)	10%	3%	5%	-2%	-5%	7%	12%	13%	13%	13%	13%
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments (\$000)	42550	42489	41675	44760	44760	47577	50761	50772	53889	56993	56993
5. Days Cash on Hand (Unrestricted)	1105	889	1080	1175	1287	1029	1187	1183	1220	1254	1254
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees (\$000)	15987	14389	11652	10858	9949	9166	9518	9995	10529	11125	11125
7. Net Annual E/F proceeds (\$000)	2179	1378	2128	2076	2197	2324	3385	3555	3733	3919	3919
8. Unrestricted Net Assets (\$000)	31444	32035	37532	40189	39018	40814	42535	43816	44732	45759	45759
9. Annual Capital Asset Expenditure (\$000)	600	500	500	882	1856	6772	5570	350	350	350	350
10. Annual Debt Service Coverage Revenue Basis (x)	1.16	1.45	2.89	1.24	0.72	1.36	1.27	1.16	1.18	1.20	1.20
11. Annual Debt Service Coverage (x)	2.91	1.18	4.29	2.33	1.68	2.48	2.77	2.73	2.83	2.93	2.93
12. Annual Debt Service/Revenue (%)	10%	10%	9%	9%	9%	12%	13%	13%	12%	12%	12%
13. Average Annual Effective Interest Rate (%)	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
14. Unrestricted Cash & Investment/ Long-Term Debt (%)	177%	180%	181%	200%	141%	153%	166%	171%	188%	205%	205%
15. Average Age of Facility (Years)	13.60	14.75	15.82	16.36	17.13	17.61	17.92	18.44	16.23	17.13	17.13

Note: 1. Magnolia Court (new building) was completed on 09/2008.
2. \$10,000,000 new loan in FYE 06/30/2015 for new SNF & Memory Care Bldg.
3. New SNF Bldg. will start construction in January, 2015

Morris Shockley
Morris Shockley
Vice President