

ANNUAL REPORT
CHECKLIST

for
FISCAL YEAR ENDED:

2012

PROVIDER: Solvang Lutheran Home, Inc

FACILITY(IES): _____

CONTACT PERSON: Ruthie Kitzmann

TELEPHONE NO.: (805) 688-3263

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

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

- A ✓ This cover sheet.
- B ✓ Annual Provider Fee in the amount of: \$ 6453⁰⁰
 - ✓ If applicable, late fee in the amount of: \$ _____
- C ✓ 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 reserve and refund reserve, if applicable.
- D ✓ Evidence of the provider's fidelity bond.
- E ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- F ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- G ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (total of four (4) copies to be included)
 - (1) ✓
 - (2) Form 1-1 Resident Population
 - (3) Form 7-1 Report on CCRC Monthly Service Fee
 - (4) Key Indicators Report



Solvang Lutheran Home, Inc.

Healthy Retirement Living

April 29, 2013

Continuing Care Contracts Branch
California Department of Social Services
744 P Street, M.S. 8-3-90
Sacramento CA 95814

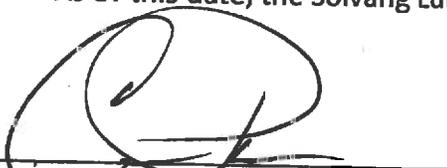
Attention: Community Care Licensing

Re: CEO Statement for FY2012

With regard to the Solvang Lutheran Home's FY 2012 Annual Report, the following statements are made:

I hereby certify that:

- The enclosed annual report is correct to the best of my knowledge;
- Each Continuing Care Contract form in use and being offered to new residents has been approved by the Department;
- As of this date, the Solvang Lutheran Home is maintaining the required liquid reserve.



Christopher W. Parker,
Executive Director



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
3/5/2013

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		CONTACT NAME: Connie Sue Collins PHONE (A/C No. Ext): (559) 733-7272 FAX (A/C No.): (559) 733-5612 E-MAIL ADDRESS: conniec@sincel927.com	
INSURED Solvang Lutheran Home, Inc., DBA: Solvang 636 Atterday Road Solvang CA 93463		INSURER(S) AFFORDING COVERAGE INSURER A: GuideOne Insurance INSURER B: INSURER C: INSURER D: INSURER E: INSURER F:	

COVERAGES **CERTIFICATE NUMBER:** 2013 Master Cert **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	<input checked="" type="checkbox"/> GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR			CPP1404411	3/1/2013	3/1/2014	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ 3,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						
A	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS NON-OWNED AUTOS			BAP1774369	3/1/2013	3/1/2014	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ Uninsured motorist BI-single \$ 1,000,000
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> EXCESS LIAB <input checked="" type="checkbox"/> DED <input checked="" type="checkbox"/> RETENTION \$ 10,000			1404412	3/1/2013	3/1/2014	<input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below			N/A			<input type="checkbox"/> W/C STATUTORY LIMITS <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Professional Liability			CPP1404411	3/1/2013	3/1/2014	Aggregate 3,000,000 Occurrence 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 Ten (10) days notice of cancellation for non-payment of premium.
 Project # 0632

CERTIFICATE HOLDER

CANCELLATION

Office of Statewide Health Planning and Development
 Wendy Benedetto
 400 R Street, Suite 470
 Sacramento, CA 95811

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
 Connie Sue Collins/CC *Connie Sue Collins*

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$1,940-\$5,792</u>	<u>\$4,701-\$6,464</u>	<u>(daily) \$285-\$338</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.5%</u>	<u>3.5%</u>	<u>3.5%</u>

Check here if monthly service fees 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: 01/01/12
(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.

PROVIDER: Solvang Lutheran Home, Inc.
COMMUNITY: Solvang Lutheran Home

The 3.5% increase was implemented to keep the Home from experiencing an operating loss and to maintain and improve the facilities.

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	94
[2]	Number at end of fiscal year	101
[3]	Total Lines 1 and 2	195
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	97.5
All Residents		
[6]	Number at beginning of fiscal year	114
[7]	Number at end of fiscal year	127
[8]	Total Lines 6 and 7	241
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	120.5
[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).	0.81

**FORM 1-2
ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)
	\$8,540,053
[a]	Depreciation
	\$380,566
[b]	Debt Service (Interest Only)
	\$184,015
[2]	Subtotal (add Line 1a and 1b)
	\$564,581
[3]	Subtract Line 2 from Line 1 and enter result.
	\$7,975,472
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)
	81%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)
	\$6,453,183
[6]	Total Amount Due (multiply Line 5 by .001)
	x .001
	\$6,453

PROVIDER Solvang Lutheran Home, Inc.

COMMUN Solvang Lutheran Home

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 4/2/2012

FACILITY NAME: SOLVANG LUTHERAN HOME, INC
 ADDRESS: 636 ATTERDAG ROAD, SOLVANG, CA ZIP CODE: 93463 PHONE: 805-688-3263
 PROVIDER NAME: SOLVANG LUTHERAN HOME FACILITY OPERATOR: SOLVANG LUTHERAN HOME, INC.
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: NONE
 YEAR OPENED: 1953 NO. OF ACRES: 10.3 MULTI-STORY: SINGLE STORY: BOTH: X
 MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 1

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>25</u>	ASSISTED LIVING <u>15</u>
APARTMENTS - 1 BDRM	<u>50</u>	SKILLED NURSING <u>46</u>
APARTMENTS - 2 BDRM	<u>1</u>	SPECIAL CARE <u>N/A</u>
COTTAGES/HOUSES	<u>0</u>	DESCRIBE SPECIAL CARE: <u>N/A</u>
% OCCUPANCY AT YEAR END	<u>82</u>	

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

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER:

RANGE OF ENTRANCE FEES: \$40,000 TO \$ 220,000 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Assisted Living and Skilled Nursing

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	SERVICES AVAILABLE		INCLUDED IN FEE	FOR EXTRA CHARGE
	AVAILABLE	FEE FOR SERVICE		
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<u>4</u>	<u> </u>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	<u>3</u>	<u> </u>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	<u>Y</u>	<u>Y</u>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
OTHER <u> </u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.

CCRCs

LOCATION (City, State)

PHONE (with area code)

Solvang Lutheran Home

Solvang, CA

(805)-688-3263

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

* PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

PROVIDER NAME: _____

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income, contributions, and grants)	<u>7,954,959</u>	<u>7,699,298</u>	<u>7,416,435</u>	<u>8,383,950</u>
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	<u>7,756,644</u>	<u>7,960,356</u>	<u>7,594,194</u>	<u>7,959,608</u>
NET INCOME FROM OPERATIONS	<u>198,315</u>	<u>(261,058)</u>	<u>(177,759)</u>	<u>424,342</u>
LESS INTEREST EXPENSE	<u>(225,169)</u>	<u>(201,473)</u>	<u>(198,644)</u>	<u>(184,015)</u>
PLUS CONTRIBUTIONS	<u>324,836</u>	<u>421,266</u>	<u>379,702</u>	<u>230,021</u>
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	<u>356,555</u>	<u>336,250</u>	<u>(208,114)</u>	<u>206,108</u>
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>654,537</u>	<u>294,985</u>	<u>(204,815)</u>	<u>676,456</u>
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	<u>1,060,751</u>	<u>563,999</u>	<u>777,163</u>	<u>957,250</u>

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
State of California	\$2,350,000	3.85%- 6.0%	1996	2019	23 Years
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

FINANCIAL RATIOS (see next page for ratio formulas)

	2006 CCAC Medians 50 th Percentile (optional)	2010	2011	2012
DEBT TO ASSET RATIO		.15	.15	.13
OPERATING RATIO		1.060	1.051	.971
DEBT SERVICE COVERAGE RATIO		1.401	1.731	2.977
DAYS CASH-ON-HAND RATIO		402	189	199

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

	2009	%	2010	%	2011	%	2012
STUDIO	1,945		2,003		2,287		2,367
ONE BEDROOM	3,785		3,952		4,227		4,375
TWO BEDROOM	4,700		4,841		5,083		5,261
COTTAGE/HOUSE	N/A		N/A		N/A		N/A
ASSISTED LIVING	4,243		4,362		4,565		5,599
SKILLED NURSING	277		285		299		310
SPECIAL CARE	N/A		N/A		N/A		N/A

COMMENTS FROM PROVIDER: _____

PROVIDER NAME: _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

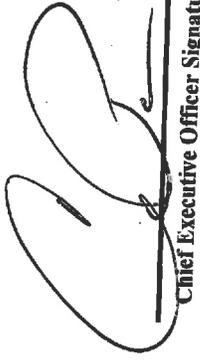
$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} \\ - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Date Prepared: 4/30/2013

KEY INDICATORS REPORT

Solvang Lutheran Home, Inc.



Chief Executive Officer Signature

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

	Forecast										Preferred Trend Indicator			
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		2018		
OPERATIONAL STATISTICS														
1. Average Annual Occupancy by Site (%)	80.14%	83.56%	89.44%	79.58%	85.33%	85.83%	86.33%	86.83%	87.33%	87.83%	88.33%	N/A		
MARGIN (PROFITABILITY) INDICATORS														
2. Net Operating Margin (%)	-2.10%	3.22%	2.67%	2.42%	7.49%	6.89%	6.89%	6.89%	6.89%	6.89%	6.89%	↑		
3. Net Operating Margin - Adjusted (%)	6.25%	6.20%	9.46%	11.13%	15.38%	14.40%	13.90%	13.40%	12.90%	12.40%	11.90%	↓		
LIQUIDITY INDICATORS														
4. Unrestricted Cash and Investments	\$2,228,948	\$3,803,683	\$3,954,810	\$4,770,394	\$4,901,460	\$4,000,000	\$4,050,000	\$4,100,000	\$4,150,000	\$4,200,000	\$4,250,000	↑		
5. Days Cash on Hand (Unrestricted)	109.05	112.45	291.97	147.46	66.31	125	127	129	131	133	135	↑		
CAPITAL STRUCTURE INDICATORS														
6. Deferred Revenue from Entrance Fees	\$2,388,335	\$2,765,243	\$2,374,054	\$2,239,611	\$2,533,467	\$2,600,000	\$2,700,000	\$2,750,000	\$2,750,000	\$2,750,000	\$2,750,000	N/A		
7. Net Annual Entrance Fee proceeds	\$600,000	\$645,850	\$588,826	\$733,763	\$775,386	\$550,000	\$575,000	\$600,000	\$625,000	\$625,000	\$625,000	N/A		
8. Unrestricted Net Assets	\$5,563,803	\$6,437,234	\$7,135,742	\$7,261,506	\$7,508,321	\$7,658,321	\$7,808,321	\$7,958,321	\$8,108,321	\$8,258,321	\$8,408,321	N/A		
9. Annual Capital Asset Expenditure	\$457,275	\$689,156	\$613,277	\$3,828,671	\$2,415,541	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	N/A		
10. Annual Debt Service Coverage Revenue Basis (x)	0.258	0.446	1.085	4.563	5.479	0.510	0.515	0.525	0.525	0.525	0.525	↑		
11. Annual Debt Service Coverage (x)	1.48	4.46	3.12	3.70	5.48	5	5.1	5.15	5.2	5.25	5.3	↑		
12. Annual Debt Service/Revenue (%)	6.30%	5.95%	5.14%	6.97%	7.33%	5.65%	5.60%	5.55%	5.50%	5.45%	5.40%	↓		
13. Average Annual Effective Interest Rate (%)	6.00%	5.90%	3.53%	4.04%	4.15%	5.50%	5.40%	5.35%	5.30%	5.25%	5.20%	↓		
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	1.08%	5.34%	115.48%	56.15%	26.29%	5.55%	5.60%	5.62%	5.64%	5.66%	5.68%	↑		
15. Average Age of Facility (years)	21	19	27	28	28	23	22	21	20	20	20	↓		

RECEIVED
CONTINUING CARE
CONTRACTS BRANCH

SOLVANG LUTHERAN HOME, INC.

AND AFFILIATE

DECEMBER 31, 2012 AND 2011

COMBINED FINANCIAL STATEMENTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

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BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

April 12, 2013

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Solvang Lutheran Home, Inc.**

Report on the Financial Statements

We have audited the accompanying combined financial statements of Solvang Lutheran Home, Inc. and Affiliates which comprise the combined statement of financial position as of December 31, 2012 and 2011, and the related combined statement of activities and changes in net assets and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 152,115	\$ 616,732
Restricted cash (Note 2)	497,700	2,010,825
Accounts receivable (Note 2)	484,627	414,375
Other assets	132,452	131,318
Current portion of pledges receivable (Note 3)	-	12,083
Total current assets	<u>1,266,894</u>	<u>3,185,333</u>
Assets Whose Use is Limited (Note 5)	<u>684,127</u>	<u>678,987</u>
Facilities and equipment, net (Note 6)	<u>14,040,779</u>	<u>11,915,954</u>
Other Assets:		
Investments (Note 4)	4,295,995	3,426,597
Debt issuance costs, net of accumulated amortization (Note 7)	92,375	108,239
Income producing real estate (Note 2)	296,000	296,000
Total other assets	<u>4,684,370</u>	<u>3,830,836</u>
Total assets	<u>\$ 20,676,170</u>	<u>\$ 19,611,110</u>

See accompanying notes

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2012 and 2011**

	2012	2011
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 878,030	\$ 723,301
Bond interest payable	46,500	40,000
Current portion of notes payable (Note 8)	124,455	146,595
Current portion of bonds payable (Note 9)	280,000	265,000
Total current liabilities	1,328,985	1,174,896
Long Term Liabilities:		
Unamortized accommodation fees (Note 2)	2,609,773	2,256,603
Notes payable, net of current portion (Note 8)	613,138	661,598
Bonds payable, net of current portion (Note 9)	2,055,996	2,333,841
Total Long Term Liabilities	5,278,907	5,252,042
Total Liabilities	6,607,892	6,426,938
Net assets		
Unrestricted:		
Board designated (Note 11)	5,703,289	5,325,057
Undesignated	8,234,321	6,236,207
Total unrestricted	13,937,610	11,561,264
Temporarily restricted (Note 12)	130,668	1,622,908
Total net assets	14,068,278	13,184,172
Total liabilities and net assets	\$ 20,676,170	\$ 19,611,110

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in Unrestricted Net Assets		
Operating Revenues:		
Skilled nursing facility	\$ 4,065,818	\$ 3,754,039
Residential care facility	3,235,941	2,869,132
Ancillary services	666,364	480,639
Thrift shop	91,468	94,275
Accommodation fee amortization	604,080	903,555
Interest income	182,173	126,895
Contributions and grants	139,376	292,553
Special events income, net of related expenses	-	1,650
Other income	142,186	89,805
Total operating revenues	<u>9,127,406</u>	<u>8,612,543</u>
Operating Expenses:		
Health services	3,051,320	2,960,255
Dietary services	1,776,462	1,710,723
Housekeeping and laundry	675,639	664,982
Social services	319,786	291,345
Thrift shop	77,640	81,216
Administration	1,030,703	837,491
Plant operations and utilities	915,834	910,195
Interest expense	184,015	198,644
Depreciation and amortization	396,430	375,688
Insurance and taxes	112,224	137,987
Total operating expenses	<u>8,540,053</u>	<u>8,168,526</u>
Income from operations	587,353	444,017
Non-operating revenues (expenses) and other gains (losses)		
Net gain (loss) on investments	206,108	(208,114)
Net assets released from restrictions	1,582,885	3,757,420
Increase in unrestricted net assets	<u>2,376,346</u>	<u>3,993,323</u>
Unrestricted net assets, beginning of year	<u>11,561,264</u>	<u>7,567,941</u>
Unrestricted net assets, end of year	<u>13,937,610</u>	<u>11,561,264</u>
Changes in Temporarily Restricted Net Assets		
Contributions and grants	90,645	87,149
Net assets released from restrictions	(1,582,885)	(3,757,420)
Decrease in temporarily restricted net assets	<u>(1,492,240)</u>	<u>(3,670,271)</u>
Temporarily restricted net assets, beginning of year	<u>1,622,908</u>	<u>5,293,179</u>
Temporarily restricted net assets, end of year	<u>130,668</u>	<u>1,622,908</u>
Total net assets, end of year	<u>\$ 14,068,278</u>	<u>\$ 13,184,172</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from:		
Residents	\$ 7,708,441	\$ 6,870,290
Community programs	240,339	258,271
Contributions and collection of pledges receivable	242,104	424,733
Investment income received	182,173	126,895
Processing fees	73,800	38,100
Net accommodation fees	957,250	777,163
Rental income	43,150	41,464
Reimbursements for services to non-residents	40,559	35,905
Other income	25,236	11,891
Cash paid to suppliers and employees	(7,804,373)	(7,501,885)
Interest paid	(175,360)	(199,201)
	<u>1,533,319</u>	<u>883,626</u>
Cash Flows from Investing Activities:		
Purchase of investments	(883,612)	(310,246)
Sales of investments	220,322	7,391
Facilities and equipment purchases	(2,507,031)	(3,685,694)
Increase in assets whose use is limited	(5,140)	(10,246)
	<u>(3,175,461)</u>	<u>(3,998,795)</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable issued	-	400,000
Repayment of notes payable	(70,600)	(68,841)
Bond principal payments	(265,000)	(245,000)
	<u>(335,600)</u>	<u>86,159</u>
Decrease in cash and cash equivalents	(1,977,742)	(3,029,010)
Cash and cash equivalents, beginning of year	<u>2,627,557</u>	<u>5,656,567</u>
Cash and cash equivalents, end of year	<u>\$ 649,815</u>	<u>\$ 2,627,557</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 - Organization and Operations

Solvang Lutheran Home, Inc. is a nonprofit, charitable corporation which owns and operates a skilled nursing facility and a residence complex for the aging. Residents entering the Home receive basic room and board in return for an accommodation fee and a monthly fee which is predetermined annually.

The Endowment Fund of the Solvang Lutheran Home, Inc. is a nonprofit public benefit corporation whose Board of Trustees may include one member of the community, with the remaining Trustees being past or present members of the Board of Directors of the Home.

The accompanying combined financial statements include the accounts of Solvang Lutheran Home, Inc. and the Endowment Fund of Solvang Lutheran Home, Inc. (collectively referred to as the Home). In combining the accounts of the two organizations, all intercompany accounts and transactions were eliminated.

Note 2 - Summary of Significant Accounting Policies

A) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Revenue is recognized when services are provided and expenses are recognized when incurred.

This accounting and reporting method classifies resources by their nature and purpose based on the presence or absence of donor-imposed restrictions, into classes of net assets:

Unrestricted Net Assets

The unrestricted group of net assets represents unrestricted resources available for current support of the Home's activities. Designations of unrestricted net assets by the Board of Directors are included in unrestricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts which may be fully expended but have been restricted by donors for certain purposes or are subject to time restrictions.

B) Use of Estimates

Management makes estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in computing the liability for deferred entrance fees and the obligation to provide future services as discussed in notes 2I and J. Actual results could differ from those estimates.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. Restricted cash represents funds which are donor restricted for specified purposes. Cash held for investment purposes is not considered to be cash and cash equivalents for the statement of cash flows.

D) Basis of Accounting for Receivables

Accounts receivable are carried at their estimated collectible amount. Management periodically evaluates receivables for collectability on a specific-account basis and records an allowance for any amounts estimated to be uncollectible. The allowance for uncollectible accounts at December 31, 2012 and 2011 was \$19,143 and \$14,605, respectively.

E) Investments

The Home reports investments in marketable securities at fair value and includes realized and unrealized gains and losses in the statements of operations and changes in net assets. See Note 4 for additional information regarding fair value.

F) Facilities and Equipment

Facilities and equipment are capitalized at cost and depreciated on a straight-line basis over the estimated useful life of the specific asset, which ranges from three to forty years.

G) Debt Issue Costs

Debt issue costs are amortized using the straight-line method over the term of the related financing agreement.

H) Income Producing Real Estate

Income producing real estate consists of real estate interests which were donated to the Home. These assets are recorded at the estimated fair value at the time of donation. Rental income received is recorded as revenue on the Home's statement of activities.

I) Accommodation Fees

Accommodation fees represent payment for future services and are accounted for as deferred revenue. The deferred revenue is amortized based on the estimated life of the resident or contract term, whichever is shorter. Life expectancy is determined using life expectancy tables provided by the California State Department of Social Services.

Accommodation fees are partially refundable if a resident moves out during the first 90 days of residency. After 90 days, a resident may terminate the contract and receive a refund based upon a fully amortized accommodation fee over the first twelve months. No amounts have been recorded as refundable fees because management does not believe that a significant portion of accommodation fees will be refunded.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3 - Pledges Receivable

During 2006, the Home started a major capital campaign with a goal of raising \$7,000,000 for capital improvements. As part of the campaign, multi-year pledges were received. As of December 31, 2012 all collectible pledges had been received.

Note 4 - Fair Value Measurements

Under the Financial Accounting Standards Board's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Home uses various methods including market, income and cost approaches. Based on these approaches, the Home often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Home utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Home is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

While the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2012 and 2011, there were no changes to the Home's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of those instruments.

Certificates of Deposit: The carrying amount approximates fair value because of the short maturity of those instruments.

Mutual Funds: Mutual funds are valued at the net asset value (“NAV”) of shares held at year end. The NAV is based on the value of the underlying securities which are valued based on quoted market prices.

The tables below present the balances of assets and liabilities measured at fair value, on a recurring basis, by level within the hierarchy.

	December 31, 2012			
	Total Fair Value	Level 1	Level 2	Level 3
Assets Whose Use is Limited:				
Cash and cash equivalents	\$ 684,127	\$ 684,127	\$	\$
Investments:				
Certificates of deposit	711,207	711,207		
Mutual funds:				
Equity funds:				
Large growth	541,229	541,229		
Mid growth	187,201	187,201		
Small growth	232,928	232,928		
Int’l Large Blend	206,762	206,762		
Large value	628,666	628,666		
Large core	164,760	164,760		
Mid core	212,332	212,332		
Small core	210,723	210,723		
Fixed Income Funds:				
Intermediate government	552,757	552,757		
High yield bond	226,080	226,080		
World bond	45,045	45,045		
Nontraditional bond	225,639	225,639		
Ultrashort bond	150,666	150,666		
Total Mutual funds	3,584,788	3,584,788		
Total assets at fair value	\$ 4,980,122	\$ 4,980,122	\$	\$

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (Continued)

	December 31, 2011			
	Total Fair Value	Level 1	Level 2	Level 3
Assets Whose Use is Limited:				
Cash and cash equivalents	\$ 678,987	\$ 678,987	\$	\$
Investments:				
Certificates of deposit	214,527	214,527		
Mutual funds:				
Equity funds:				
Large growth	546,536	546,536		
Mid growth	162,003	162,003		
Small growth	203,519	203,519		
Large value	550,678	550,678		
Large core	143,227	143,227		
Mid core	185,668	185,668		
Small core	192,468	192,468		
Fixed Income Funds:				
Intermediate government	541,405	541,405		
High yield bond	204,618	204,618		
World bond	42,385	42,385		
Nontraditional bond	293,922	293,922		
Ultrashort bond	145,641	145,641		
Total Mutual funds	3,212,070	3,212,070		
 Total assets at fair value	\$ 4,105,584	\$ 4,105,584	\$	\$

Note 5 - Assets Whose Use is Limited

As a requirement of the 1996 bond issue (see Note 9), certain funds related to the bond issue are controlled by the bond trustee. These funds consist of debt service reserves, capitalized interest funds, and insurance funds.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 6 - Facilities and Equipment

Facilities and equipment consist of the following at December 31:

	2012	2011
Facilities and equipment:		
Land	\$ 873,290	\$ 873,290
Buildings and improvements	12,947,255	12,683,630
Furnishings and equipment	3,984,260	3,905,652
Vehicles	283,089	283,089
Construction in progress	6,383,895	4,220,737
Total facilities and equipment	24,471,789	21,966,398
Accumulated depreciation:		
Buildings and improvements	6,670,367	6,388,787
Furnishings and equipment	3,488,646	3,392,880
Vehicles	271,997	268,777
Less accumulated depreciation	10,431,010	10,050,444
Total facilities and equipment, net	\$ 14,040,779	\$ 11,915,954

All facilities and equipment are pledged as collateral on the bonds payable.

Note 7 - Debt Issuance Costs

Debt issuance costs, net of accumulated amortization were as follows for the years ended December 31:

	2012	2011
Debt issuance costs	\$ 317,501	\$ 317,501
Less accumulated amortization	(225,126)	(209,262)
Total net debt issuance costs	\$ 92,375	\$ 108,239

Amortization expense was \$15,864 and \$14,432 for each of the years ended December 31, 2012 and 2011, respectively. Estimated future amortization expense is as follows for the years ended December 31:

2013	\$	14,432
2014		14,432
2015		14,432
2016		14,432
2017		14,432
Thereafter		20,215
	\$	92,375

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 8 - Notes Payable

In April of 2011, the Home issued a note to a resident in the amount of \$400,000, which requires quarterly interest only payments at 5% per annum. This note is unique in that in the event of death of the payee the note shall be forgiven but if the payee outlives his financial resources the payor would commence paying the expense for his care, housing and services. There is no formal arrangement to repay the principal. The proceeds are to be used for the Recovery Residence Administration Building Project. The entire balance of this note is included in the long term portion of notes payable on the statement of financial position. Unspent proceeds in the amount of \$367,032 and \$400,000 were presented as restricted cash on the balance sheet for the years ending December 31, 2012 and 2011, respectively.

The Home has financed construction and refurbishing of its facilities through unsecured notes payable issued to various residents of the Home with principal payable within 180 days from demand, after March 2011. The interest rate on these notes was 5% through December 31, 2011 and was reduced to 3.5% effective in January 2012. The balance of these notes was \$75,000 and \$100,000 at December 31, 2012 and 2011, respectively. The entire balance is included in the current portion of notes payable on the statement of financial position at December 31, 2012, as they are payable upon demand beginning in 2011.

In addition, \$458,000 in ten year notes were issued with interest payments at 6% payable for the first two years, and interest and principal payments due over the following eight years. The balances of these notes were \$262,593 and \$308,193 at December 31, 2012 and 2011, respectively. The annual maturities of these notes payable for the next five years and thereafter at December 31, 2012 are as follows:

2013	\$	49,455
2014		52,489
2015		55,710
2016		59,129
2017		40,596
Thereafter		5,214
	\$	<u>262,593</u>

Related interest expense was \$45,950 and \$36,004 for 2012 and 2011, respectively.

Note 9 - Bonds Payable

During 1996, the Home refinanced its bonds payable, at a lower interest rate, through the issuance of new bonds. Bonds payable are comprised of the following:

	<u>2012</u>	<u>2011</u>
\$5,210,000 certificates of participation dated August 1, 1996, with interest at 3.85% to 6% due in varying amounts from April 1, 1997 through April 2019.	\$ 2,350,000	\$ 2,615,000
Less unamortized discount	(14,004)	(16,159)
	<u>2,335,996</u>	<u>2,598,841</u>
Less current portion	(280,000)	(265,000)
Bonds payable, net of current portion	<u>\$ 2,055,996</u>	<u>\$ 2,333,841</u>

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 9 - Bonds Payable (Continued)

The above certificates are subject to optional redemption prior to maturity beginning April 1, 2007 at redemption prices ranging from \$100% to \$102% of the principal amounts of the bond being redeemed.

The Home is required to establish a sinking fund with the trustee to pay the principal on certain certificates having a stated maturity on April 1, 2019. The Home must deposit \$1,955,000 between 2013 and 2018 with the trustee.

The combined aggregate amounts of annual maturities and mandatory sinking fund payments of bonds payable for the next five years and thereafter at December 31, are as follows:

2013	\$	280,000
2014		295,000
2015		315,000
2016		335,000
2017		355,000
Thereafter		770,000
	<u>\$</u>	<u>2,350,000</u>

The bonds are collateralized by all facilities, equipment and gross revenues of the Home. Pursuant to the loan agreement, the Home must comply with certain restrictive financial and other covenants, the most restrictive of which include the maintenance of certain required funds (see Note 5), limitations on acquisition of properties, limitations on additional indebtedness, and maintenance of service rates and charges so that cash flow available for debt services is at least 120 percent of annual debt service as defined in the loan agreements.

Note 10 - Line of Credit

During 2012, the Home obtained a \$500,000 line of credit with Montecito Bank & Trust. The line of credit, which matures May 31, 2014, has an interest rate of 2.8% and is secured by a \$500,000 certificate of deposit held at Montecito Bank & Trust. No amounts were drawn on the line of credit at December 31, 2012.

Note 11 - Board Designated Net Assets

At December 31, 2012 and 2011, the Board of Directors had designated a portion of the unrestricted net assets for the following purposes:

	<u>2012</u>	<u>2011</u>
Endowment Fund of the Solvang Lutheran Home, Inc.	\$ 4,431,175	\$ 4,052,943
School property project	860,000	860,000
Debt retirement	360,000	360,000
Capital improvements	52,114	52,114
Total designated net assets	<u>\$ 5,703,289</u>	<u>\$ 5,325,057</u>

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2012	2011
Construction of Alzheimer's Unit	\$ -	\$ 444,145
Construction of Recovery Residence	-	1,122,883
Purchase of equipment	130,668	55,880
Total temporarily restricted net assets	<u>\$ 130,668</u>	<u>\$ 1,622,908</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2012	2011
Purchase of equipment	\$ 27,940	\$ 21,601
Construction of Recovery Residence	1,110,800	3,710,819
Construction of Dining Room	-	25,000
Released by donor	444,145	-
	<u>\$ 1,582,885</u>	<u>\$ 3,757,420</u>

Note 13 - Supplemental Disclosure of Cash Flow Information

The following is a reconciliation of the change in net assets to net cash provided by operating activities for the years ended December 31:

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 884,106	\$ 323,052
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	396,430	375,688
Amortization of bond discount	2,155	2,154
Net accommodation fees	957,250	777,163
Amortization of unearned entrance fees	(604,080)	(903,555)
Net (gain) loss on investments	(206,108)	208,114
(Increase) decrease in:		
Accounts receivable	(70,252)	397,343
Pledges receivable	12,083	45,031
Other assets	(1,134)	14,342
Increase (decrease) in:		
Accounts payable and accrued expenses	162,869	75,256
Deferred revenue from monthly fees	-	(430,962)
Net cash provided by operating activities	<u>\$ 1,533,319</u>	<u>\$ 883,626</u>

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 14 - Malpractice Insurance

The Home maintains professional liability insurance on an occurrence basis. There were no claims outstanding at December 31, 2012.

Note 15 - Employee Benefit Plans

Effective May 15, 2012, the Home adopted a 457 Top Hat Plan, which is an eligible deferred compensation plan within the meaning of Section 457(b) of the Internal Revenue Code. The primary purpose of the Plan is to permit a select group of management or highly compensated employees to defer a portion of current compensation until death, retirement, severance from employment, or other event, in accordance with the applicable sections of the Internal Revenue Code. During 2012, one employee participated in this plan. The Home did not make contributions to the plan in 2012.

Effective January 1, 2009, The Home adopted a non-ERISA 403(b) plan covering all eligible employees. The Home does not make contributions to the plan.

Note 16 - Uncertain Tax Positions

In 2009, the Home adopted the accounting for uncertainty in income taxes provisions contained within accounting principles generally accepted in the United States of America ("GAAP"). This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Home's financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Management evaluated the Home's tax positions as of December 31, 2012 and concluded that the Home had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements to comply with the provisions of this guidance. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Home's informational returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Home is no longer subject to income tax examinations by tax authorities for years prior to 2009 for federal purposes and for years prior to 2008 for California purposes.

Note 17 - Concentration of Credit Risk

The Home held approximately \$1,358,000 in excess of federal insurance limits in bank accounts at financial institutions on December 31, 2012.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 18 - Lease Commitment

In March 2009, the Home entered into a lease for property at 448 Atterdag Road, Unit 1, Solvang, CA. The lease, which expired March 14, 2011, has three one year renewal options. The first renewal option was exercised in March 2011 and the second was exercised in March 2012. Monthly rent under the terms of the lease was \$1,500 at December 31, 2010, and was increased to \$1,600 upon execution of the first renewal period. The monthly rent is subject to potential CPI increases each March, upon renewal. Rent expense for this lease was \$19,680 and \$19,000 for the years ended December 31, 2012 and 2011, respectively.

Note 19 - Commitments

In November 2012, the Home entered into a contract of approximately \$800,000 for architectural services related to the Master Plan Project which will include significant improvements to the Home's facilities. As of December 31, 2012, no payments had been made related to this contract. The Master Plan Project is expected to be completed over a period of approximately three years.

Note 20 - Reclassifications

Certain reclassifications were made to prior year balances in order to conform with current year presentation.

Note 21 - Subsequent Events

Subsequent events have been evaluated through April 12, 2013, the date that the financial statements were available to be issued.

Supplemental Schedules

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS	Solvang Lutheran Home, Inc.	Endowment Fund - SLH, Inc.	Total	Eliminations	Combined Total
Current Assets:					
Cash and cash equivalents	\$ 118,821	\$ 33,294	\$ 152,115	\$ -	\$ 152,115
Restricted cash	497,700	-	497,700	-	497,700
Accounts receivable	484,627	15,000	499,627	(15,000)	484,627
Other assets	130,359	2,093	132,452	-	132,452
Total current assets	<u>1,231,507</u>	<u>50,387</u>	<u>1,281,894</u>	<u>(15,000)</u>	<u>1,266,894</u>
Assets Whose Use is Limited	<u>684,127</u>	<u>-</u>	<u>684,127</u>	<u>-</u>	<u>684,127</u>
Facilities and equipment, net	<u>14,040,779</u>	<u>-</u>	<u>14,040,779</u>	<u>-</u>	<u>14,040,779</u>
Other Assets:					
Notes receivable	-	500,000	500,000	(500,000)	-
Investments	711,207	3,584,788	4,295,995	-	4,295,995
Debt issuance costs, net	92,375	-	92,375	-	92,375
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>803,582</u>	<u>4,380,788</u>	<u>5,184,370</u>	<u>(500,000)</u>	<u>4,684,370</u>
Total assets	<u>\$ 16,759,995</u>	<u>\$ 4,431,175</u>	<u>\$ 21,191,170</u>	<u>\$ (515,000)</u>	<u>\$ 20,676,170</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 893,030	\$ -	\$ 893,030	\$ (15,000)	\$ 878,030
Bond interest payable	46,500	-	46,500	-	46,500
Current portion of notes payable	124,455	-	124,455	-	124,455
Current portion of bonds payable	280,000	-	280,000	-	280,000
Total current liabilities	<u>1,343,985</u>	<u>-</u>	<u>1,343,985</u>	<u>(15,000)</u>	<u>1,328,985</u>
Long Term Liabilities:					
Unamortized accommodation fees	2,609,773	-	2,609,773	-	2,609,773
Notes payable, net of current portion	1,113,138	-	1,113,138	(500,000)	613,138
Bonds payable, net of current portion	2,055,996	-	2,055,996	-	2,055,996
Total Long Term Liabilities	<u>5,778,907</u>	<u>-</u>	<u>5,778,907</u>	<u>(500,000)</u>	<u>5,278,907</u>
Total Liabilities	<u>7,122,892</u>	<u>-</u>	<u>7,122,892</u>	<u>(515,000)</u>	<u>6,607,892</u>
Net assets					
Unrestricted:					
Board designated	1,272,114	4,431,175	5,703,289	-	5,703,289
Undesignated	8,234,321	-	8,234,321	-	8,234,321
Total unrestricted	<u>9,506,435</u>	<u>4,431,175</u>	<u>13,937,610</u>	<u>-</u>	<u>13,937,610</u>
Temporarily restricted	130,668	-	130,668	-	130,668
Total net assets	<u>9,637,103</u>	<u>4,431,175</u>	<u>14,068,278</u>	<u>-</u>	<u>14,068,278</u>
Total liabilities and net assets	<u>\$ 16,759,995</u>	<u>\$ 4,431,175</u>	<u>\$ 21,191,170</u>	<u>\$ (515,000)</u>	<u>\$ 20,676,170</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2012

	Solvang Lutheran Home, Inc.	Endowment Fund - SLH, Inc.	Total	Eliminations	Combined Total
Changes in Unrestricted Net Assets					
Operating Revenues:					
Skilled nursing facility	\$ 4,065,818	\$ -	\$ 4,065,818	\$ -	\$ 4,065,818
Residential care facility	3,235,941	-	3,235,941	-	3,235,941
Ancillary services	666,364	-	666,364	-	666,364
Thrift shop	91,468	-	91,468	-	91,468
Accommodation fee amortization	604,080	-	604,080	-	604,080
Interest income	4,801	192,372	197,173	(15,000)	182,173
Contributions and grants	127,799	11,577	139,376	-	139,376
Resident assistance from Endowment Fund	34,072	-	34,072	(34,072)	-
Other income	99,036	43,150	142,186	-	142,186
Total operating revenues	<u>8,929,379</u>	<u>247,099</u>	<u>9,176,478</u>	<u>(49,072)</u>	<u>9,127,406</u>
Operating Expenses:					
Health services	3,051,320	-	3,051,320	-	3,051,320
Dietary services	1,776,462	-	1,776,462	-	1,776,462
Housekeeping and laundry	675,639	-	675,639	-	675,639
Social services	319,786	-	319,786	-	319,786
Thrift shop	77,640	-	77,640	-	77,640
Administration	993,388	37,315	1,030,703	-	1,030,703
Plant operations and utilities	915,834	-	915,834	-	915,834
Interest expense	199,015	-	199,015	(15,000)	184,015
Depreciation and amortization	396,430	-	396,430	-	396,430
Resident assistance to Solvang Lutheran Home	-	34,072	34,072	(34,072)	-
Insurance and taxes	108,636	3,588	112,224	-	112,224
Total operating expense	<u>8,514,150</u>	<u>74,975</u>	<u>8,589,125</u>	<u>(49,072)</u>	<u>8,540,053</u>
Income from operations	415,229	172,124	587,353	-	587,353
Non-operating revenues (expenses) and other gains (losses)					
Net gain on investments	-	206,108	206,108	-	206,108
Net assets released from restrictions	1,582,885	-	1,582,885	-	1,582,885
Increase in unrestricted net assets	<u>1,998,114</u>	<u>378,232</u>	<u>2,376,346</u>	<u>-</u>	<u>2,376,346</u>
Unrestricted net assets, beginning of year	7,508,321	4,052,943	11,561,264	-	11,561,264
Unrestricted net assets, end of year	<u>9,506,435</u>	<u>4,431,175</u>	<u>13,937,610</u>	<u>-</u>	<u>13,937,610</u>
Changes in Temporarily Restricted Net Assets					
Contributions	90,645	-	90,645	-	90,645
Net assets released from restrictions	(1,582,885)	-	(1,582,885)	-	(1,582,885)
Decrease in temporarily restricted net assets	<u>(1,492,240)</u>	<u>-</u>	<u>(1,492,240)</u>	<u>-</u>	<u>(1,492,240)</u>
Temporarily restricted net assets, beginning of year	1,622,908	-	1,622,908	-	1,622,908
Temporarily restricted net assets, end of year	<u>130,668</u>	<u>-</u>	<u>130,668</u>	<u>-</u>	<u>130,668</u>
Total net assets, end of year	<u>\$ 9,637,103</u>	<u>\$ 4,431,175</u>	<u>\$ 14,068,278</u>	<u>\$ -</u>	<u>\$ 14,068,278</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2011

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 573,952	\$ 42,780	\$ 616,732	\$ -	\$ 616,732
Restricted cash	2,010,825	-	2,010,825	-	2,010,825
Accounts receivable	414,375	-	414,375	-	414,375
Other assets	129,225	2,093	131,318	-	131,318
Current portion of pledges receivable	12,083	-	12,083	-	12,083
Total current assets	<u>3,140,460</u>	<u>44,873</u>	<u>3,185,333</u>	<u>-</u>	<u>3,185,333</u>
Assets Whose Use is Limited	<u>678,987</u>	<u>-</u>	<u>678,987</u>	<u>-</u>	<u>678,987</u>
Facilities and equipment, net	<u>11,915,954</u>	<u>-</u>	<u>11,915,954</u>	<u>-</u>	<u>11,915,954</u>
Other Assets:					
Notes receivable	-	500,000	500,000	(500,000)	-
Investments	214,527	3,212,070	3,426,597	-	3,426,597
Debt issuance costs, net	108,239	-	108,239	-	108,239
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>322,766</u>	<u>4,008,070</u>	<u>4,330,836</u>	<u>(500,000)</u>	<u>3,830,836</u>
Total assets	<u>\$ 16,058,167</u>	<u>\$ 4,052,943</u>	<u>\$ 20,111,110</u>	<u>\$ (500,000)</u>	<u>\$ 19,611,110</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable and accrued expenses	\$723,301	\$ -	\$ 723,301	\$ -	\$ 723,301
Bond interest payable	40,000	-	40,000	-	40,000
Current portion of notes payable	146,595	-	146,595	-	146,595
Current portion of bonds payable	265,000	-	265,000	-	265,000
Total current liabilities	<u>1,174,896</u>	<u>-</u>	<u>1,174,896</u>	<u>-</u>	<u>1,174,896</u>
Long Term Liabilities:					
Unamortized accommodation fees	2,256,603	-	2,256,603	-	2,256,603
Notes payable, net of current portion	1,161,598	-	1,161,598	(500,000)	661,598
Bonds payable, net of current portion	2,333,841	-	2,333,841	-	2,333,841
Total Long Term Liabilities	<u>5,752,042</u>	<u>-</u>	<u>5,752,042</u>	<u>(500,000)</u>	<u>5,252,042</u>
Total Liabilities	<u>6,926,938</u>	<u>-</u>	<u>6,926,938</u>	<u>(500,000)</u>	<u>6,426,938</u>
Net assets					
Unrestricted:					
Board designated	1,272,114	4,052,943	5,325,057	-	5,325,057
Undesignated	6,236,207	-	6,236,207	-	6,236,207
Total unrestricted	<u>7,508,321</u>	<u>4,052,943</u>	<u>11,561,264</u>	<u>-</u>	<u>11,561,264</u>
Temporarily restricted	<u>1,622,908</u>	<u>-</u>	<u>1,622,908</u>	<u>-</u>	<u>1,622,908</u>
Total net assets	<u>9,131,229</u>	<u>4,052,943</u>	<u>13,184,172</u>	<u>-</u>	<u>13,184,172</u>
Total liabilities and net assets	<u>\$ 16,058,167</u>	<u>\$ 4,052,943</u>	<u>\$ 20,111,110</u>	<u>\$ (500,000)</u>	<u>\$ 19,611,110</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2011

	Solvang Lutheran Home, Inc.	Endowment Fund - SLH, Inc.	Total	Eliminations	Combined Total
Changes in Unrestricted Net Assets					
Operating Revenues:					
Skilled nursing facility	\$3,754,039	\$ -	\$ 3,754,039	\$ -	\$ 3,754,039
Residential care facility	2,869,132	-	2,869,132	-	2,869,132
Ancillary services	480,639	-	480,639	-	480,639
Thrift shop	94,275	-	94,275	-	94,275
Accommodation fee amortization	903,555	-	903,555	-	903,555
Interest income	18,633	123,262	141,895	(15,000)	126,895
Contributions, bequests and memorials	58,997	230,783	289,780	-	289,780
Resident assistance from Endowment Fund	2,773	-	2,773	-	2,773
Grants from Endowment Fund	59,466	-	59,466	(59,466)	-
Special events income, net of related expenses	1,650	-	1,650	-	1,650
Other income	48,341	41,464	89,805	-	89,805
Total operating revenues	<u>8,291,500</u>	<u>395,509</u>	<u>8,687,009</u>	<u>(74,466)</u>	<u>8,612,543</u>
Operating Expenses:					
Health services	2,960,255	-	2,960,255	-	2,960,255
Dietary services	1,710,723	-	1,710,723	-	1,710,723
Housekeeping and laundry	664,982	-	664,982	-	664,982
Social services	291,345	-	291,345	-	291,345
Thrift shop	81,216	-	81,216	-	81,216
Administration	806,088	31,403	837,491	-	837,491
Plant operations and utilities	910,195	-	910,195	-	910,195
Interest expense	213,644	-	213,644	(15,000)	198,644
Depreciation and amortization	375,688	-	375,688	-	375,688
Resident assistance to Solvang Lutheran Home	-	59,466	59,466	(59,466)	-
Insurance and taxes	134,399	3,588	137,987	-	137,987
Total operating expense	<u>8,148,535</u>	<u>94,457</u>	<u>8,242,992</u>	<u>(74,466)</u>	<u>8,168,526</u>
Income (loss) from operations	142,965	301,052	444,017	-	444,017
Non-operating revenues and other gains					
Net gain (loss) on investments	-	(208,114)	(208,114)	-	(208,114)
Net assets released from restrictions	3,757,420	-	3,757,420	-	3,757,420
Increase in unrestricted net assets	<u>3,900,385</u>	<u>92,938</u>	<u>3,993,323</u>	<u>-</u>	<u>3,993,323</u>
Unrestricted net assets, beginning of year	<u>3,607,936</u>	<u>3,960,005</u>	<u>7,567,941</u>	<u>-</u>	<u>7,567,941</u>
Unrestricted net assets, end of year	<u>7,508,321</u>	<u>4,052,943</u>	<u>11,561,264</u>	<u>-</u>	<u>11,561,264</u>
Changes in Temporarily Restricted Net Assets					
Contributions	87,149	-	87,149	-	87,149
Net assets released from restrictions	(3,757,420)	-	(3,757,420)	-	(3,757,420)
Increase in temporarily restricted assets	<u>(3,670,271)</u>	<u>-</u>	<u>(3,670,271)</u>	<u>-</u>	<u>(3,670,271)</u>
Temporarily restricted net assets, beginning of year	<u>5,293,179</u>	<u>-</u>	<u>5,293,179</u>	<u>-</u>	<u>5,293,179</u>
Temporarily restricted net assets, end of year	<u>1,622,908</u>	<u>-</u>	<u>1,622,908</u>	<u>-</u>	<u>1,622,908</u>
Total net assets, end of year	<u>\$ 9,131,229</u>	<u>\$ 4,052,943</u>	<u>\$ 13,184,172</u>	<u>\$ -</u>	<u>\$ 13,184,172</u>

See accompanying notes

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TREASURER

SOLVANG LUTHERAN HOME, INC.

DECEMBER 31, 2012

SCHEDULES RELATED TO
CONTINUING CARE RESERVES



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

April 23, 2013

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Solvang Lutheran Home, Inc.:**

Report on the Continuing Care Reserves

We have audited the accompanying continuing care reserves report of Solvang Lutheran Home, Inc. as of December 31, 2012.

Management's Responsibility for the Continuing Care Reserves Report

Management is responsible for the preparation and fair presentation of the continuing care reserves report in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the continuing care reserves report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the continuing care reserves report 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 continuing care reserves report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the continuing care reserves report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the continuing care reserves report, 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 continuing care reserves report 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 continuing care reserves report.

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

Opinion

In our opinion, the continuing care reserves report referred to above presents fairly, in all material respects, the liquid reserve requirements of Solvang Lutheran Home as of December 31, 2012, in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

The accompanying continuing care reserves report was prepared for the purpose of complying with California Health and Safety Code section 1792 and is not intended to be a complete presentation of the Home's assets, liabilities, revenues and expenses.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Solvang Lutheran Home, Inc. and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

Bartlett, Prungh + Wolf, LLP

**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	VAR	\$45,600	\$23,199		\$68,799
2	08/01/96	\$265,000	\$129,410		\$394,410
3	VAR 2009	\$0	\$2,751		\$2,751
4	04/01/11	\$0	\$20,000		\$20,000
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$175,360	\$0	\$485,960

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

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

PROVIDER: Solvang Lutheran Home, Inc.

**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					\$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: Solvang Lutheran Home, Inc.

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

Line	TOTAL
1 Total from Form 5-1 bottom of Column (e)	\$485,960
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)	\$0
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$485,960

PROVIDER: Solvang Lutheran Home, Inc.

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	
2	Deductions:	\$8,540,053
	a. Interest paid on long-term debt (see instructions)	\$175,360
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	
	d. Amortization	\$380,566
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$15,864
	f. Extraordinary expenses approved by the Department	\$2,416,026
3	Total Deductions	\$0
4	Net Operating Expenses	\$2,987,816
5	Divide Line 4 by 365 and enter the result.	\$5,552,237
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$15,212
		\$1,140,871

PROVIDER: Solvang Lutheran Home, Inc.
COMMUNITY: Solvang Lutheran Home

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Solvang Lutheran Home, Inc.
 Fiscal Year Ended: 31-Dec-12

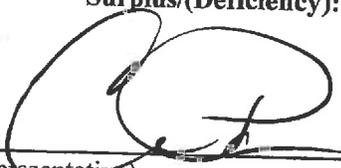
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2012 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$485,960</u>
[2] Operating Expense Reserve Amount	<u>\$1,140,871</u>
[3] Total Liquid Reserve Amount:	<u>\$1,626,831</u>

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		<u>\$863,322</u>
[5] Investment Securities		
[6] Equity Securities		<u>\$3,584,788</u>
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$684,127</u>	(not applicable)
[10] Other:		
<u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$684,127 [12]</u>	<u>\$4,448,110</u>
Reserve Obligation Amount: [13]	<u>\$485,960 [14]</u>	<u>\$1,140,871</u>
Surplus/(Deficiency): [15]	<u>\$198,167 [16]</u>	<u>\$3,307,239</u>

Signature: 
 (Authorized Representative)

Date: 4/29/13

EXECUTIVE DIRECTOR
 (Title)

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2012**

Form 5-1, Column c

Interest paid - Form 5-1 column c	\$ 175,360
Change in accrued interest	\$ 6,500
Amortization of bond discount	<u>2,155</u>
Interest expense related to debt incurred in prior fiscal years	\$ 184,015
Interest paid - Form 5-2 column b	<u>\$ -</u>
Total interest expense per audited financial statements	<u><u>\$ 184,015</u></u>

**Solvang Lutheran Home
 Continuing Care Reserve Report
 December 31, 2012**

Form 5-4, Line 2E: Revenues received during the fiscal year for services to persons who did not have a continuing care contract

Cash received from residents, per statement of cash flows	\$ 7,708,441
Reimbursements for services to non-residents, per statement of cash flows	40,559
Cash received from community programs, per statement of cash flows	<u>240,339</u>
Total cash received for services	7,989,339
Cash received from persons with continuing care contracts	<u>(5,573,313)</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u><u>\$ 2,416,026</u></u>

Total revenue received for services to persons who did not have a continuing care contract is comprised of the following:

Guest meals	\$ 22,921
Guest room rental	12,000
Room and board for non-contract residents	2,135,128
Thrift shop revenues	91,468
Food revenue from community organizations	148,871
Employee meals	<u>5,638</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u><u>\$ 2,416,026</u></u>

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2011**

Form 5-5, Description and Amount of Reserves Maintained

Debt Reserves Held in Trust:	
Certificate Reserve Fund:	
Cash and cash equivalents	\$ 423,947
Insurance Payment Fund:	
Cash and cash equivalents	4,063
Insurance Reserve Fund:	
Cash and cash equivalents	9,835
Purchase Payment Fund:	
Cash and cash equivalents	246,282
Total Debt Reserves Held in Trust	<u>684,127</u>
Operating Reserves	<u>4,448,110</u>
Total Liquid Reserve Assets	<u>\$ 5,132,237</u>