

RECEIVED A
APR 29 2016

ANNUAL REPORT CHECKLIST
FISCAL YEAR ENDED: 2015
CONTINUING CARE CONTRACTS BRANCH

PROVIDER(S): Solvang Lutheran Home, Inc.

CCRC(S): Solvang Lutheran Home, Inc., DBA Atterdag Village of Solvang

CONTACT PERSON: _____

TELEPHONE NO.: (805) 688-3263 EMAIL: Ruth@PeopleWhoCare.com

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

- A Annual Report Checklist.
- B Annual Provider Fee in the amount of: \$7,367.00
 If applicable, late fee in the amount of: \$ NA
- 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* reserves and, when applicable, the required refund reserve.
- D Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- E Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- F Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- G Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for *each* community.
- NA 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.

- ✓ G1 Disclosure Statement
- ✓ G2 Form 7-1
- ✓ G3 Form 1-1
- ✓ G4 Key Indicators Report

C


Solvang Lutheran Home, Inc.
A Retirement Community

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APR 29 2016
CONTINUING CARE
CONTRACTS BRANCH

April 28, 2016

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

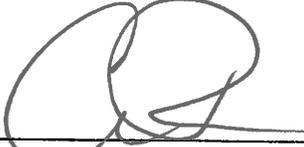
Attention: Community Care Licensing

Re: CEO Statement for FY2015

With regard to the Solvang Lutheran Home, Inc.'s FY 2015 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 of Social Services;
- As of this date, the Solvang Lutheran Home, Inc. is maintaining the required liquid reserves and, when applicable, the required refund reserve.



Christopher W. Parker,
Executive Director

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	100
[2]	Number at end of fiscal year	112
[3]	Total Lines 1 and 2	212
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	106
All Residents		
[6]	Number at beginning of fiscal year	126
[7]	Number at end of fiscal year	148
[8]	Total Lines 6 and 7	274
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	137
[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).	0.77

**FORM 1-2
ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$10,335,496
[a]	Depreciation	\$711,234
[b]	Debt Service (Interest Only)	\$102,944
[2]	Subtotal (add Line 1a and 1b)	\$814,178
[3]	Subtract Line 2 from Line 1 and enter result.	\$9,521,318
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	77%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$7,366,859
[6]	Total Amount Due (multiply Line 5 by .001)	\$7,367

PROVIDER Solvang Lutheran Home, Inc.
COMMUNITY Solvang Lutheran Home

SOLVANG LUTHERAN HOME, INC.

AND AFFILIATE

DECEMBER 31, 2015 AND 2014

FINANCIAL STATEMENTS



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

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

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APR 29 2016
CONTINUING CARE
CONTRACTS BRANCH

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 Affiliate, which comprise the combined statement of financial position as of December 31, 2015 and 2014, and the related combined statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from 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 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 combined financial statements.

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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Solvang Lutheran Home, Inc. and Affiliate as of December 31, 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.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining information on pages 21-24 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2016, on our consideration of Solvang Lutheran Home, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Solvang Lutheran Home, Inc. and Affiliate's internal control over financial reporting and compliance.

Bartlett, Prungh + Wolf, LLP

Santa Barbara, California
April 18, 2016

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 2,999,240	\$ 4,092,334
Accounts receivable (Note 2)	628,625	455,610
Other assets	178,429	76,325
Total current assets	3,806,294	4,624,269
Assets Whose Use is Limited:		
Donor restricted (Note 3)	501,599	494,183
Held with trustee (Note 3)	831,490	3,494,689
Total limited use assets	1,333,089	3,988,872
Facilities and equipment, net (Note 5)	26,261,695	17,355,524
Other Assets:		
Investments (Note 4)	10,630,183	8,352,168
Debt issuance costs, net of accumulated amortization (Note 6)	408,397	430,312
Income producing real estate (Note 2)	296,000	296,000
Total other assets	11,334,580	9,078,480
Total assets	\$ 42,735,658	\$ 35,047,145

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,270,303	\$ 1,298,068
Interest payable	188,190	81,812
Current portion of long term debt (Note 7)	634,755	521,334
Total current liabilities	2,093,248	1,901,214
Long Term Liabilities:		
Unamortized accommodation fees (Note 2)	5,540,813	2,847,772
Long term debt, net of current portion (Note 7)	11,718,262	7,887,106
Total long term liabilities	17,259,075	10,734,878
 Total liabilities	 19,352,323	 12,636,092
Net Assets:		
Unrestricted:		
Board designated (Note 8)	7,245,997	6,962,073
Undesignated	15,635,739	15,321,829
Total unrestricted	22,881,736	22,283,902
Temporarily restricted (Note 9)	501,599	127,151
 Total net assets	 23,383,335	 22,411,053
 Total liabilities and net assets	 \$ 42,735,658	 \$ 35,047,145

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in Unrestricted Net Assets:		
Operating Revenues:		
Skilled nursing facility	\$ 4,355,779	\$ 4,360,775
Residential care facility	4,178,060	3,718,492
Ancillary services	1,047,134	798,917
Thrift shop	108,582	105,144
Accommodation fee amortization	796,959	783,591
Investment income	335,487	286,898
Contributions and grants	229,811	6,161,803
Other income	261,645	118,582
Total operating revenues	<u>11,313,457</u>	<u>16,334,202</u>
Operating Expenses:		
Health services	3,784,935	3,403,280
Dietary services	2,040,781	1,905,244
Housekeeping and laundry	634,212	639,007
Social services	449,894	433,652
Thrift shop	95,691	85,363
Administration	1,275,675	1,106,390
Plant operations and utilities	1,113,575	926,371
Interest expense	102,944	51,148
Depreciation and amortization	733,149	638,863
Insurance and taxes	104,640	99,192
Total operating expenses	<u>10,335,496</u>	<u>9,288,510</u>
Income from operations	977,961	7,045,692
Non-operating revenues and other gains (losses):		
Net loss on investments	(506,527)	(139,022)
Gain (loss) on sale of equipment	1,400	(1,478)
Net assets released from restrictions	125,000	125,726
Increase in unrestricted net assets	<u>597,834</u>	<u>7,030,918</u>
Unrestricted net assets, beginning of year	<u>22,283,902</u>	<u>15,252,984</u>
Unrestricted net assets, end of year	<u>22,881,736</u>	<u>22,283,902</u>
Changes in Temporarily Restricted Net Assets:		
Contributions and grants	498,032	125,000
Investment income	1,416	2,151
Net assets released from restrictions	(125,000)	(125,726)
Increase in temporarily restricted net assets	<u>374,448</u>	<u>1,425</u>
Temporarily restricted net assets, beginning of year	<u>127,151</u>	<u>125,726</u>
Temporarily restricted net assets, end of year	<u>501,599</u>	<u>127,151</u>
Total net assets, end of year	<u>\$ 23,383,335</u>	<u>\$ 22,411,053</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from:		
Residents	\$ 9,179,983	\$ 8,619,647
Community programs	298,390	309,430
Contributions received	196,843	6,161,803
Investment income received	335,487	286,898
Processing fees	102,900	67,200
Accommodation fees received	3,344,500	997,000
Rental income	51,161	48,991
Reimbursements for services to non-residents	38,167	47,225
Other income	107,584	2,391
Cash paid to suppliers and employees	<u>(9,531,213)</u>	<u>(8,483,422)</u>
Net cash provided by operating activities	<u>4,123,802</u>	<u>8,057,163</u>
Cash Flows from Investing Activities:		
Purchase of investments	(6,090,099)	(3,816,672)
Purchase of assets restricted to investment in facilities and equipment	(132,416)	(127,151)
Proceeds from sale of investments	3,305,557	674,837
Proceeds from sale of equipment	1,400	5,646
Facilities and equipment purchases	(9,301,530)	(3,055,164)
Decrease (increase) in assets whose use is limited	2,663,199	(3,494,689)
Net cash used by investing activities	<u>(9,553,889)</u>	<u>(9,813,193)</u>
Cash Flows from Financing Activities:		
Accommodation fees refunded	(140,000)	(120,040)
Contributions and interest restricted for facilities and equipment	132,416	127,151
Proceeds from issuance of long term debt	4,865,911	5,529,270
Debt issuance costs	-	(389,933)
Repayment of long term debt	<u>(521,334)</u>	<u>(511,066)</u>
Net cash provided by financing activities	<u>4,336,993</u>	<u>4,635,382</u>
Increase (decrease) in cash and cash equivalents	(1,093,094)	2,879,352
Cash and cash equivalents, beginning of year	<u>4,092,334</u>	<u>1,212,982</u>
Cash and cash equivalents, end of year	<u>\$ 2,999,240</u>	<u>\$ 4,092,334</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 residential 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 accommodation fees and the obligation to provide future services as discussed in notes 2H 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. Certain cash equivalents held for investment purposes are 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. No allowance was recorded as of December 31, 2015 or 2014, as all amounts were considered to be fully collectible.

E) Investments

The Home reports investments in marketable securities at fair value and includes realized and unrealized gains and losses in the statement of activities 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. Certain interest costs incurred during the period of construction of facilities are capitalized as a component of the cost of acquiring those assets. Cash outflows related to capitalized interest are included on the statement of cash flows as facilities and equipment purchases.

G) Debt Issuance Costs

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

H) 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 State of California Department of Social Services.

Accommodation fees are fully refundable if a resident terminates their contract during the first 90 days of residency. If a resident terminates their contract after 90 days but before 365 days, they are entitled to a 75% refund of the accommodation fee paid. Upon the death of a resident between their first and second years of residency, their estate is entitled to a refund of 50% of the accommodation fee. No amounts have been recorded as refundable fees at December 31, 2015 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 2 - Summary of Significant Accounting Policies (Continued)

I) 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.

J) Obligation to Provide Future Services

The Home annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from accommodation fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from accommodation fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 4.0 percent. As of December 31, 2015 and 2014 there was no accruable obligation to provide future services.

K) Medical Revenue

Medical revenue is reported at the estimated net realizable amounts from Medicare for services rendered, including estimated retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

L) Donor Restrictions

The Home 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 (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year as received may be reflected as unrestricted contributions in the accompanying financial statements.

M) Ancillary Services

Ancillary services include expenses related to physical therapy, occupational therapy, pharmacy and speech therapy.

N) Income Taxes

The Home is a tax-exempt nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code.

O) Income from Operations

The statement of activities and changes in net assets includes income from operations. Changes in unrestricted net assets which are excluded from income from operations, consistent with industry practice, include gains and losses on investments and sale of equipment, and satisfactions of restrictions on contributions used for operations.

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

Note 4 - Fair Value Measurements (Continued)

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 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, 2015 and 2014, 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.

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

Certificates of Deposit: Valued at carrying amount which approximates fair value.

Exchange Traded Funds: Exchange traded 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.

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.

Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Income: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 - Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value, on a recurring basis, by level within the hierarchy as of December 31, 2015.

	December 31, 2015			
	Total Fair Value	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit	\$ -	\$ -	\$ -	\$ -
Fixed income:				
Taxable municipal bonds	21,618		21,618	
Federally tax exempt municipal bonds	857,374	-	857,374	-
Corporate bonds	499,365	-	499,365	-
Government and agency securities	323,896	-	323,896	-
Asset and mortgage backed securities	201,835	-	201,835	-
Total fixed income securities	<u>1,904,088</u>	<u>-</u>	<u>1,904,088</u>	<u>-</u>
Common stocks	1,340,904	1,340,904	-	-
Exchange traded funds:				
Immediate term bond	2,346,343	2,346,343	-	-
Short term bond	333,637	333,637	-	-
Mid-cap growth	21,936	21,936	-	-
World stock	55,541	55,541	-	-
Large blend	199,948	199,948	-	-
Large growth	211,195	211,195	-	-
Large value	398,388	398,388	-	-
Total exchange traded funds	<u>3,566,988</u>	<u>3,566,988</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Immediate term bond	415,893	415,893	-	-
World bond	345,616	345,616	-	-
High yield bond	406,482	406,482	-	-
Corporate bonds	126,926	126,926	-	-
Commodities broad basket	144,520	144,520	-	-
Large blend	380,092	380,092	-	-
Large growth	647,180	647,180	-	-
Large value	618,708	618,708	-	-
Mid-cap blend	313,166	313,166	-	-
Mid-cap growth	137,379	137,379	-	-
Global real estate	201,166	201,166	-	-
Money market mutual funds	81,075	81,075	-	-
Total mutual funds	<u>3,818,203</u>	<u>3,818,203</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 10,630,183</u>	<u>\$ 8,726,095</u>	<u>\$ 1,904,088</u>	<u>\$ -</u>

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

Note 4 - Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value, on a recurring basis, by level within the hierarchy as of December 31, 2014.

	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit	\$ 213,742	\$ -	\$ 213,742	\$ -
Fixed income:				
Municipal bonds	167,015	-	167,015	-
Corporate bonds	201,734	-	201,734	-
Government and agency securities	205,790	-	205,790	-
Asset and mortgage backed securities	228,037	-	228,037	-
Total fixed income securities	<u>802,576</u>	<u>-</u>	<u>802,576</u>	<u>-</u>
Common stocks	739,070	739,070	-	-
Exchange traded funds:				
Immediate term bond	1,951,733	1,951,733	-	-
Short term bond	334,671	334,671	-	-
Large blend	185,258	185,258	-	-
Large growth	206,588	206,588	-	-
Large value	412,903	412,903	-	-
Total exchange traded funds	<u>3,091,153</u>	<u>3,091,153</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Immediate term bond	264,621	264,621	-	-
World bond	325,739	325,739	-	-
High yield bond	323,563	323,563	-	-
Commodities broad basket	170,933	170,933	-	-
Large blend	395,679	395,679	-	-
Large growth	607,460	607,460	-	-
Large value	632,797	632,797	-	-
Mid-cap blend	326,400	326,400	-	-
Mid-cap growth	136,824	136,824	-	-
Global real estate	202,875	202,875	-	-
Money market mutual funds	118,736	118,736	-	-
Total mutual funds	<u>3,505,627</u>	<u>3,505,627</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 8,352,168</u>	<u>\$ 7,335,850</u>	<u>\$ 1,016,318</u>	<u>\$ -</u>

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

Note 7 - Long Term Debt

Long term debt is comprised of the following at December 31:

	2015	2014
Note payable to resident	\$ -	\$ 400,000
Banc of America lease agreement	1,958,117	2,479,451
Certificates of participation (COPs)	3,470,000	3,470,000
Original issuance premium on COPs	8,163	8,163
USDA loan	6,916,737	2,050,826
Total long term debt	12,353,017	8,408,440
Less current portion	(634,755)	(521,334)
Total long term debt, net of current portion	\$ 11,718,262	\$ 7,887,106

Note Payable to Resident

In April of 2011, the Home issued a note to a resident in the amount of \$400,000, which required 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 Home would commence paying the expense for his care, housing and services. There was no formal arrangement to repay the principal. The entire balance of this note was included in the long term portion of notes payable on the statement of financial position at December 31, 2014. During 2015 the resident passed away and the principal balance was therefore forgiven and recognized as revenue. Interest expense on the note was \$18,495 and \$20,000 for the years ended December 31, 2015 and 2014, respectively.

The proceeds from this note are to be used for the Assisted Living Building/Cottage Project. Unspent proceeds in the amount of \$367,032 were included in donor restricted assets on the statement of financial position as of December 31, 2015 and 2014.

Banc of America Lease Agreement

In July of 2013, the Home entered into an agreement with Banc of America Public Capital Corp to lease funds in the amount of \$3,200,000. The funds were used to pay off various notes payable, supplement expenditures for the Home's Master Plan Project, and to pay off the 1996 Certificates of Participation. Monthly payments in the amount of \$47,266 are due from August 2013 through July 2019, including interest at 2.05%. The balance of this obligation was \$1,958,117 at December 31, 2015. Related interest expense was \$45,859 and \$56,408 of which \$16,344 and \$25,267 was capitalized as part of construction in progress for the years ended December 31, 2015 and 2014, respectively.

The Banc of America lease agreement requires the Home's Endowment Fund to maintain a minimum amount in the Fund which is verified by Banc of America twice per year. The Home maintained the minimum required balance during 2015 and therefore is in compliance with all covenants prescribed in the lease agreement. The agreement is collateralized by various assets of the Home.

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

Note 7 - Long Term Debt (Continued)

Scheduled principal payments for the Banc of America Public Capital Corp lease for the next four years at December 31, 2015 are as follows:

2016	\$	532,101
2017		543,091
2018		554,307
2019		328,618
	\$	<u>1,958,117</u>

Certificates of Participation

In July of 2014, the Home issued Certificates of Participation (COPs) in the amount of \$3,470,000 to (i) fund the construction and equipping of nine independent living cottages, (ii) finance project development costs and certain furniture, fixtures and equipment, (iii) fund capitalized interest on the certificates through October 2015, (iv) fund the reserve account for the certificates and (v) pay a portion of the costs of issuance of the certificates. The certificates were issued through the City of Solvang as the conduit issuer with insurance from the California Office of Statewide Health Planning and Development (Cal Mortgage) as fixed rate obligations with both serial and term maturities.

Interest is payable semi-annually on January 1st and July 1st of each year commencing January 1, 2015, with interest rates ranging from 2.0% to 4.0%. Principal payments are scheduled to commence on July 1, 2016 and continue through July 1, 2040. The certificates are secured by a pledge of various assets and revenues of the Home. Interest expense was \$129,388 and \$58,662 of which \$86,258 and \$58,655 was capitalized as part of construction in progress for the years ended December 31, 2015 and 2014, respectively.

The regulatory agreement to the COPs require the Home to fix, charge, and collect rates, fees and charges which are reasonably projected to be sufficient in each year to produce net income available for debt service of at least 1.25 times the maximum aggregate annual debt service for such year. The regulatory agreement also requires the Home to maintain, as of the end of each year, a ratio of current assets to current liabilities of at least 1.5 to 1, and at least 160 days cash on hand at December 31, 2015. The days cash on hand requirement increases to 200 days at December 31, 2016 and thereafter. The Home was in compliance with these requirements as of December 31, 2015.

Principal payments on the certificates required for the next five years and thereafter at December 31, 2015 are as follows:

2016	\$	35,000
2017		95,000
2018		95,000
2019		100,000
2020		100,000
Thereafter		3,045,000
	\$	<u>3,470,000</u>

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

Note 7 - Long Term Debt (Continued)

USDA Loan

In July of 2014, the Home received approval for a United States Department of Agriculture Community Facilities Loan of up to \$7,335,000 for construction of a new assisted living facility. The Home receives funding from the loan on a reimbursement basis and at December 31, 2015 \$6,916,737 had been received. The interest rate is fixed at 4.0% and the loan is payable over a 30 year term. An annual interest-only payment is due on July 17, 2016, with monthly principal and interest payments of \$36,382 commencing on August 17, 2016. The loan is secured by the assisted living facility, and a shared interest in the related land. Interest expense of \$170,412 and \$17,869 was incurred and entirely capitalized to construction in progress during the years ended December 31, 2015 and 2014, respectively.

Scheduled principal payments required for the next five years and thereafter assuming that the full amount of the \$7,335,000 will be borrowed are as follows:

2016	\$	67,654
2017		148,595
2018		154,649
2019		160,949
2020		167,507
Thereafter		6,635,646
	\$	<u>7,335,000</u>

Note 8 - Board Designated Net Assets

At December 31, 2015 and 2014, the Board of Directors had designated a portion of the unrestricted net assets for the following purposes:

	<u>2015</u>	<u>2014</u>
Endowment Fund of the Solvang Lutheran Home, Inc.	\$ 6,808,270	\$ 6,956,706
Capital improvements	437,727	5,367
Total designated net assets	<u>\$ 7,245,997</u>	<u>\$ 6,962,073</u>

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets were \$501,599 and \$127,151 as of December 31, 2015 and 2014, respectively. All amounts were restricted for the purchase of facilities and equipment. Net assets in the amount of \$125,000 in 2015 and \$125,726 in 2014 were released by fulfillment of their restricted purpose of purchasing facilities and equipment.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 10 - 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:

	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	\$ 972,282	\$ 7,032,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	733,149	638,863
Net accommodation fees	3,344,500	997,000
Amortization of unearned entrance fees	(796,959)	(783,591)
Net loss on investments	506,527	139,022
(Gain) loss on sale of equipment	(1,400)	1,478
Contributions and interest restricted for long-term assets	(132,416)	(127,151)
Contribution revenue for forgiven note payable	(400,000)	-
(Increase) decrease in:		
Accounts receivable	(173,015)	(7,026)
Other assets	(102,104)	(270)
Increase (decrease) in:		
Accounts payable and accrued expenses	173,238	166,495
Net cash provided by operating activities	\$ 4,123,802	\$ 8,057,163

Note 11 - Malpractice Insurance

The Home maintains professional liability insurance on an occurrence basis. There were no claims outstanding at December 31, 2015.

Note 12 - 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 2015 and 2014, one employee participated in this plan. The Home did not make contributions to the plan in 2015 or 2014.

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.

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

Note 13 - 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, 2015 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 2012 for federal purposes and for years prior to 2011 for California purposes.

Note 14 - Lease Commitment

The Home has entered into a lease for property at 448 Atterdag Road, Unit 1, Solvang, CA, with monthly payments of \$1,697 through March 2015 and \$1,731 effective April 2015. The lease expires in March 2017 and is subject to a potential CPI increase on March 2016, not to exceed 2%. Total rent expense for this lease was \$20,709 and \$20,370 for the years ended December 31, 2015 and 2014, respectively.

Note 15 - Subsequent Events

Subsequent events have been evaluated through April 18, 2016, 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, 2015

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 2,941,228	\$ 58,012	\$ 2,999,240	\$ -	\$ 2,999,240
Accounts receivable	628,625	-	628,625	-	628,625
Other assets	175,917	2,512	178,429	-	178,429
Total current assets	<u>3,745,770</u>	<u>60,524</u>	<u>3,806,294</u>	<u>-</u>	<u>3,806,294</u>
Assets Whose Use is Limited:					
Donor restricted	501,599	-	501,599	-	501,599
Held with trustee for debt service	831,490	-	831,490	-	831,490
Total limited use assets	<u>1,333,089</u>	<u>-</u>	<u>1,333,089</u>	<u>-</u>	<u>1,333,089</u>
Facilities and equipment, net	<u>26,261,695</u>	<u>-</u>	<u>26,261,695</u>	<u>-</u>	<u>26,261,695</u>
Other Assets:					
Investments	4,178,437	6,451,746	10,630,183	-	10,630,183
Debt issuance costs, net	408,397	-	408,397	-	408,397
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>4,586,834</u>	<u>6,747,746</u>	<u>11,334,580</u>	<u>-</u>	<u>11,334,580</u>
Total assets	<u>\$ 35,927,388</u>	<u>\$ 6,808,270</u>	<u>\$ 42,735,658</u>	<u>\$ -</u>	<u>\$ 42,735,658</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,270,303	\$ -	\$ 1,270,303	\$ -	\$ 1,270,303
Interest payable	188,190	-	188,190	-	188,190
Current portion of long term debt	634,755	-	634,755	-	634,755
Total current liabilities	<u>2,093,248</u>	<u>-</u>	<u>2,093,248</u>	<u>-</u>	<u>2,093,248</u>
Long Term Liabilities:					
Unamortized accommodation fees	5,540,813	-	5,540,813	-	5,540,813
Long term debt, net of current portion	11,718,262	-	11,718,262	-	11,718,262
Total long term liabilities	<u>17,259,075</u>	<u>-</u>	<u>17,259,075</u>	<u>-</u>	<u>17,259,075</u>
Total liabilities	<u>19,352,323</u>	<u>-</u>	<u>19,352,323</u>	<u>-</u>	<u>19,352,323</u>
Net Assets:					
Unrestricted:					
Board designated	437,727	6,808,270	7,245,997	-	7,245,997
Undesignated	15,635,739	-	15,635,739	-	15,635,739
Total unrestricted	<u>16,073,466</u>	<u>6,808,270</u>	<u>22,881,736</u>	<u>-</u>	<u>22,881,736</u>
Temporarily restricted	501,599	-	501,599	-	501,599
Total net assets	<u>16,575,065</u>	<u>6,808,270</u>	<u>23,383,335</u>	<u>-</u>	<u>23,383,335</u>
Total liabilities and net assets	<u>\$ 35,927,388</u>	<u>\$ 6,808,270</u>	<u>\$ 42,735,658</u>	<u>\$ -</u>	<u>\$ 42,735,658</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, 2015

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
Changes in Unrestricted Net Assets:					
Operating Revenues:					
Skilled nursing facility	\$ 4,355,779	\$ -	\$ 4,355,779	\$ -	\$ 4,355,779
Residential care facility	4,178,060	-	4,178,060	-	4,178,060
Ancillary services	1,047,134	-	1,047,134	-	1,047,134
Thrift shop	108,582	-	108,582	-	108,582
Accommodation fee amortization	796,959	-	796,959	-	796,959
Investment income	116,225	219,262	335,487	-	335,487
Contributions and grants	230,864	5,823	236,687	(6,876)	229,811
Resident assistance from Endowment Fund	30,000	(30,000)	-	-	-
Other income	210,484	51,161	261,645	-	261,645
Total operating revenues	<u>11,074,087</u>	<u>246,246</u>	<u>11,320,333</u>	<u>(6,876)</u>	<u>11,313,457</u>
Operating Expenses:					
Health services	3,784,935	-	3,784,935	-	3,784,935
Dietary services	2,040,781	-	2,040,781	-	2,040,781
Housekeeping and laundry	634,212	-	634,212	-	634,212
Social services	449,894	-	449,894	-	449,894
Thrift shop	95,691	-	95,691	-	95,691
Administration	1,202,183	80,368	1,282,551	(6,876)	1,275,675
Plant operations and utilities	1,113,575	-	1,113,575	-	1,113,575
Interest expense	102,944	-	102,944	-	102,944
Depreciation and amortization	733,149	-	733,149	-	733,149
Insurance and taxes	101,052	3,588	104,640	-	104,640
Total operating expenses	<u>10,258,416</u>	<u>83,956</u>	<u>10,342,372</u>	<u>(6,876)</u>	<u>10,335,496</u>
Income from operations	815,671	162,290	977,961	-	977,961
Non-operating revenues and other gains (losses):					
Net loss on investments	(195,801)	(310,726)	(506,527)	-	(506,527)
Gain on sale of equipment	1,400	-	1,400	-	1,400
Net assets released from restrictions	125,000	-	125,000	-	125,000
Increase in unrestricted net assets	<u>746,270</u>	<u>(148,436)</u>	<u>597,834</u>	<u>-</u>	<u>597,834</u>
Unrestricted net assets, beginning of year	15,327,196	6,956,706	22,283,902	-	22,283,902
Unrestricted net assets, end of year	<u>16,073,466</u>	<u>6,808,270</u>	<u>22,881,736</u>	<u>-</u>	<u>22,881,736</u>
Changes in Temporarily Restricted Net Assets:					
Contributions and grants	498,032	-	498,032	-	498,032
Investment income	1,416	-	1,416	-	1,416
Net assets released from restrictions	(125,000)	-	(125,000)	-	(125,000)
Increase in temporarily restricted net assets	<u>374,448</u>	<u>-</u>	<u>374,448</u>	<u>-</u>	<u>374,448</u>
Temporarily restricted net assets, beginning of year	127,151	-	127,151	-	127,151
Temporarily restricted net assets, end of year	<u>501,599</u>	<u>-</u>	<u>501,599</u>	<u>-</u>	<u>501,599</u>
Total net assets, end of year	<u>\$ 16,575,065</u>	<u>\$ 6,808,270</u>	<u>\$ 23,383,335</u>	<u>\$ -</u>	<u>\$ 23,383,335</u>

See accompanying notes

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2014**

	<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	\$ 4,026,615	\$ 65,719	\$ 4,092,334	\$ -	\$ 4,092,334
Accounts receivable	459,198	-	459,198	(3,588)	455,610
Other assets	74,531	1,794	76,325	-	76,325
Total current assets	<u>4,560,344</u>	<u>67,513</u>	<u>4,627,857</u>	<u>(3,588)</u>	<u>4,624,269</u>
Assets Whose Use is Limited:					
Donor restricted	494,183	-	494,183	-	494,183
Held with trustee for debt service	3,494,689	-	3,494,689	-	3,494,689
Total limited use assets	<u>3,988,872</u>	<u>-</u>	<u>3,988,872</u>	<u>-</u>	<u>3,988,872</u>
Facilities and equipment, net	<u>17,355,524</u>	<u>-</u>	<u>17,355,524</u>	<u>-</u>	<u>17,355,524</u>
Other Assets:					
Investments	1,755,388	6,596,780	8,352,168	-	8,352,168
Debt issuance costs, net	430,312	-	430,312	-	430,312
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>2,185,700</u>	<u>6,892,780</u>	<u>9,078,480</u>	<u>-</u>	<u>9,078,480</u>
Total assets	<u>\$ 28,090,440</u>	<u>\$ 6,960,293</u>	<u>\$ 35,050,733</u>	<u>\$ (3,588)</u>	<u>\$ 35,047,145</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,298,069	\$ 3,587	\$ 1,301,656	\$ (3,588)	\$ 1,298,068
Interest payable	81,812	-	81,812	-	81,812
Current portion of long term debt	521,334	-	521,334	-	521,334
Total current liabilities	<u>1,901,215</u>	<u>3,587</u>	<u>1,904,802</u>	<u>(3,588)</u>	<u>1,901,214</u>
Long Term Liabilities:					
Unamortized accommodation fees	2,847,772	-	2,847,772	-	2,847,772
Long term debt, net of current portion	7,887,106	-	7,887,106	-	7,887,106
Total long term liabilities	<u>10,734,878</u>	<u>-</u>	<u>10,734,878</u>	<u>-</u>	<u>10,734,878</u>
Total liabilities	<u>12,636,093</u>	<u>3,587</u>	<u>12,639,680</u>	<u>(3,588)</u>	<u>12,636,092</u>
Net Assets:					
Unrestricted:					
Board designated	5,367	6,956,706	6,962,073	-	6,962,073
Undesignated	15,321,829	-	15,321,829	-	15,321,829
Total unrestricted	<u>15,327,196</u>	<u>6,956,706</u>	<u>22,283,902</u>	<u>-</u>	<u>22,283,902</u>
Temporarily restricted	127,151	-	127,151	-	127,151
Total net assets	<u>15,454,347</u>	<u>6,956,706</u>	<u>22,411,053</u>	<u>-</u>	<u>22,411,053</u>
Total liabilities and net assets	<u>\$ 28,090,440</u>	<u>\$ 6,960,293</u>	<u>\$ 35,050,733</u>	<u>\$ (3,588)</u>	<u>\$ 35,047,145</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, 2014

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
Changes in Unrestricted Net Assets:					
Operating Revenues:					
Skilled nursing facility	\$ 4,360,775	\$ -	\$ 4,360,775	\$ -	\$ 4,360,775
Residential care facility	3,718,492	-	3,718,492	-	3,718,492
Ancillary services	798,917	-	798,917	-	798,917
Thrift shop	105,144	-	105,144	-	105,144
Accommodation fee amortization	783,591	-	783,591	-	783,591
Interest income	6,393	280,505	286,898	-	286,898
Contributions and grants	4,149,668	2,012,135	6,161,803	-	6,161,803
Resident assistance from Endowment Fund	30,000	(30,000)	-	-	-
Other income	69,591	48,991	118,582	-	118,582
Total operating revenues	<u>14,022,571</u>	<u>2,311,631</u>	<u>16,334,202</u>	<u>-</u>	<u>16,334,202</u>
Operating Expenses:					
Health services	3,403,280	-	3,403,280	-	3,403,280
Dietary services	1,905,244	-	1,905,244	-	1,905,244
Housekeeping and laundry	639,007	-	639,007	-	639,007
Social services	433,652	-	433,652	-	433,652
Thrift shop	85,363	-	85,363	-	85,363
Administration	1,049,555	56,835	1,106,390	-	1,106,390
Plant operations and utilities	926,371	-	926,371	-	926,371
Interest expense	51,148	-	51,148	-	51,148
Depreciation and amortization	638,863	-	638,863	-	638,863
Insurance and taxes	95,305	3,887	99,192	-	99,192
Total operating expenses	<u>9,227,788</u>	<u>60,722</u>	<u>9,288,510</u>	<u>-</u>	<u>9,288,510</u>
Income from operations	4,794,783	2,250,909	7,045,692	-	7,045,692
Non-operating revenues and other gains:					
Net loss on investments	-	(139,022)	(139,022)	-	(139,022)
Loss on sale of equipment	(1,478)	-	(1,478)	-	(1,478)
Net assets released from restrictions	125,726	-	125,726	-	125,726
Increase in unrestricted net assets	4,919,031	2,111,887	7,030,918	-	7,030,918
Unrestricted net assets, beginning of year	<u>10,408,165</u>	<u>4,844,819</u>	<u>15,252,984</u>	<u>-</u>	<u>15,252,984</u>
Unrestricted net assets, end of year	<u>15,327,196</u>	<u>6,956,706</u>	<u>22,283,902</u>	<u>-</u>	<u>22,283,902</u>
Changes in Temporarily Restricted Net Assets:					
Contributions and grants	125,000	-	125,000	-	125,000
Interest income	2,151	-	2,151	-	2,151
Net assets released from restrictions	(125,726)	-	(125,726)	-	(125,726)
Decrease in temporarily restricted assets	1,425	-	1,425	-	1,425
Temporarily restricted net assets, beginning of year	<u>125,726</u>	<u>-</u>	<u>125,726</u>	<u>-</u>	<u>125,726</u>
Temporarily restricted net assets, end of year	<u>127,151</u>	<u>-</u>	<u>127,151</u>	<u>-</u>	<u>127,151</u>
Total net assets, end of year	<u>\$ 15,454,347</u>	<u>\$ 6,956,706</u>	<u>\$ 22,411,053</u>	<u>\$ -</u>	<u>\$ 22,411,053</u>

See accompanying notes



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Solvang Lutheran Home, Inc. and Affiliate (the Home), which comprise the combined statement of financial position as of December 31, 2015, and the related combined statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Home's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Home's internal control. Accordingly, we do not express an opinion on the effectiveness of Solvang Lutheran Home, Inc. and Affiliate's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solvang Lutheran Home, Inc. and Affiliate's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Home's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bartlett, Pringh + Wolf, LLP

Santa Barbara, California
April 18, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited Solvang Lutheran Home, Inc. and Affiliate's (the Home's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Home's major federal programs for the year ended December 31, 2015. The Home's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Home's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Home's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Home's compliance.

Opinion on Each Major Federal Program

In our opinion, the Home complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the Home is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Home's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Home's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bartlett, Prugh + Wolf, LLP

Santa Barbara, California

April 18, 2016

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Rural Development Program Community Facilities Loan	10.766	04-042-908024620	\$4,865,911

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the activity of Solvang Lutheran Home, Inc. and Affiliate's federal loan program. The schedule has been prepared on the cash basis of accounting and reports the value of loans received from the USDA during 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

Note 2 – Program Description

The Home has one community facilities loan with the United States Department of Agriculture to construct a new assisted living facility. The total loan balance outstanding at December 31, 2015 was \$6,916,737.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2015

I. AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiencies identified? Yes No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

<u>Grant Number(s)</u>	<u>Name of Federal Program</u>
04-042-908024620	Rural Development Program Community Facilities Loan

Dollar threshold used to distinguish between type A and type B programs \$ 750,000

Auditee qualified as low-risk auditee? Yes No

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2015

II. FINANCIAL STATEMENT FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended December 31, 2015

II. FINANCIAL STATEMENT FINDINGS

Finding 2014-01: Long Term Debt

Summary of Prior Year Finding:

The general ledger balances for the Home's certificates of participation (COPs) and related debt issuance costs were both significantly understated. Management relies on the Home's outside CPAs to make year end adjustments related to debt and debt issuance costs. The Home's outside CPA used different workpapers to record the long-term debt and debt issuance costs instead of the actual escrow final closing documents.

Status:

The finding was fully corrected in 2015.

Finding 2014-02: Net Assets Classification

Summary of Prior Year Finding:

Management tracks the receipt and expenditure of restricted contributions, however this activity is not reflected in the proper net asset accounts on the general ledger maintained by the outside CPA. The trial balance received for the audit showed the temporarily restricted net asset balance unchanged from the December 31, 2013 balance, although temporarily restricted activity had taken place during 2014.

Status:

The finding was fully corrected in 2015.

Finding 2014-03: Retentions Payable

Summary of Prior Year Finding:

Additions to the Home's construction in progress accounts were recorded at the amount paid to the contractor, net of retentions held.

Status:

The finding was fully corrected in 2015.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2015

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-04

Federal Agency: U.S. Department of Agriculture (USDA)

Federal Program: USDA Rural Development Program Community Facilities Loans and Grants, CFDA No. 10.766

Compliance Requirement: Procurement

Type of Finding: Significant Deficiency in Internal Control over Compliance; Noncompliance

Summary of Prior Year Finding:

The requirements for procurement under this program are contained in 2 CFR 215 sections 215.40 through 215.48 and 7 CFR 1942.18. Under these regulations the Home is required to establish and implement procurement policies which conform to applicable Federal law and regulations and standards. The Home does not have a formal procurement policy which conforms to the above noted regulations. The Company did not comply with all requirements of 2 CFR sections 215.40 through 215.48. Specifically, the Company did not properly document their cost and price analysis for all applicable procurements, and not all procurements had documented contracts with federally required provisions included. The Home did comply with the required regulations for the two largest contracts related to the program, and the remaining contracts which were not in compliance were cumulatively immaterial.

Status:

The finding was fully corrected in 2015.

Finding 2014-05

Federal Agency: U.S. Department of Agriculture (USDA)

Federal Program: USDA Rural Development Program Community Facilities Loans and Grants, CFDA No. 10.766

Compliance Requirement: Suspension and Debarment

Type of Finding: Significant Deficiency in Internal Control over Compliance

Summary of Prior Year Finding:

In accordance with 2 CFR 180, 2 CFR 215.13, and 7 CFR 1942.18, award recipients must not enter into covered transactions with parties that are suspended or debarred or whose principals are suspended or debarred. The Home does not have internal controls implemented to ensure compliance with the suspension and debarment compliance requirements. Specifically, there is no process in place to identify covered transactions or to ensure that vendors are not suspended or debarred, either by checking the central contractor registry, or obtaining the necessary Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion, which evidences the vendor's exclusion from the suspension and debarment listing.

Status:

The finding was fully corrected in 2015.

SOLVANG LUTHERAN HOME, INC.

DECEMBER 31, 2015

SCHEDULES RELATED TO
CONTINUING CARE RESERVES



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



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

RECEIVED
APR 29 2016

CONTINUING CARE
CONTRACTS BRANCH

April 22, 2016

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, 2015.

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, 2015, 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, Pringh + 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	07/15/13	\$521,334	\$45,856		\$567,190
2	04/01/11	\$0	\$18,495		\$18,495
3	07/17/14	\$0	\$123,637		\$123,637
4	07/17/14	\$0	\$81,592		\$81,592
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$269,580	\$0	\$790,914

(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)

	(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))
Long-Term Debt Obligation 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**

<u>Line</u>		<u>TOTAL</u>
1	Total from Form 5-1 bottom of Column (e)	\$790,914
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)	\$20,709
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$811,623

PROVIDER: Solvang Lutheran Home, Inc.

FORM 5-4

CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$10,335,496
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$269,580
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	\$711,234
	d. Amortization	\$21,915
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$3,682,591
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$4,685,320
4	Net Operating Expenses	\$5,650,176
5	Divide Line 4 by 365 and enter the result.	\$15,480
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$1,160,995

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-15

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2015 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2015 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$811,623</u>
[2] Operating Expense Reserve Amount	<u>\$1,160,995</u>
[3] Total Liquid Reserve Amount:	<u>\$1,972,618</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>\$513,315</u>	<u>\$2,485,925</u>
[5] Investment Securities		<u>\$1,904,088</u>
[6] Equity Securities		<u>\$8,726,095</u>
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$298,308</u>	(not applicable)
[10] Other: <u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$811,623 [12]</u>	<u>\$13,116,108</u>
Reserve Obligation Amount: [13]	<u>\$811,623 [14]</u>	<u>\$1,160,995</u>
Surplus/(Deficiency): [15]	<u>\$0 [16]</u>	<u>\$11,955,113</u>

Signature: 

 (Authorized Representative)


 (Title)

Date: 4/28/16

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2015**

Form 5-1, Column c

Interest paid - Form 5-1 column c	\$ 269,580
Change in accrued interest	106,378
Interest capitalized to construction in progress	<u>(273,014)</u>
Interest expense related to debt incurred in prior fiscal years	<u>102,944</u>
Total interest expense per audited financial statements	<u><u>\$ 102,944</u></u>

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2015**

**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	\$ 9,179,983
Reimbursements for services to non-residents, per statement of cash flows	38,167
Cash received from community programs, per statement of cash flows	<u>298,390</u>
Total cash received for services	9,516,540
Cash received from persons with continuing care contracts	<u>(5,833,949)</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u><u>\$ 3,682,591</u></u>

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

Guest meals	\$ 25,016
Guest room rental	6,457
Room and board for non-contract residents	3,346,034
Thrift shop revenues	108,582
Food revenue from community organizations	189,808
Employee meals	<u>6,694</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u><u>\$ 3,682,591</u></u>

Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2015

Form 5-5, Description and Amount of Reserves Maintained

Operating Reserve:

Cash deposits - undesignated	\$	2,480,550
Cash deposits - designated for master plan project		5,375
Exchange traded funds		3,566,988
Mutual funds		3,818,203
Fixed Income securities		1,904,088
Common stocks		1,340,904
		<u>13,116,108</u>

Debt Service Reserve:

Cash and cash equivalents:		
Certificate reserve fund held by trustee		224,863
Purchase payment fund held by trustee		73,445
Cash deposits - undesignated		513,315
		<u>811,623</u>

Total Reserves Maintained \$ 13,927,731

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

Date Prepared: 4/22/16

FACILITY NAME: SOLVANG LUTHERAN HOME, INC. DBA: ATTERDAG VILLAGE OF SOLVANG
 ADDRESS: 636 ATTERDAG ROAD, SOLVANG 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 # OF SINGLE MULTI- MILES TO SHOPPING CTR: 1
 OPENED: 1953 ACRES: 10.3 STORY STORY OTHER: _____ MILES TO HOSPITAL: 1

NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS – STUDIO: <u>23</u>	ASSISTED LIVING: <u>14</u>
APARTMENTS – 1 BDRM: <u>50</u>	SKILLED NURSING: <u>50</u>
APARTMENTS – 2 BDRM: <u>1</u>	SPECIAL CARE: <u>15</u>
COTTAGES/HOUSES: <u>9</u>	DESCRIPTION: > <u>Memory Care 15 Units</u>
RLU OCCUPANCY (%) AT YEAR END: <u>94%</u>	> _____

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% FULLY AMORTIZED OTHER: _____

RANGE OF ENTRANCE FEES: \$ 40,000 - \$ 425,000 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: ASSISTED LIVING AND SKILLED NURSING

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

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > THE RESIDENT REPRESENTATIVE ON THE BOARD IS ELECTED AND VOTED ONTO THE BOARD
 > OF DIRECTORS ANNUALLY BY THE RESIDENTS. THE RESIDENT BOARD MEMBER PARTICIPATES THE SAME AS ALL CURRENT BOARD OF DIRECTORS, WHO HAVE CHOICES AS TO THE COMMITTEE IN WHICH THEY PARTICIPATE.

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 (<u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input 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 checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input 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 checked="" type="checkbox"/>	<input 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 HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<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.

PROVIDER NAME: SOLVANG LUTHERAN HOME, INC.

<u>OTHER CCRCs</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
SOLVANG LUTHERAN HOME, INC.	SOLVANG, CA	805-688-3263

<u>MULTI-LEVEL RETIREMENT COMMUNITIES</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>

<u>FREE-STANDING SKILLED NURSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>

<u>SUBSIDIZED SENIOR HOUSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: SOLVANG LUTHERAN HOME, INC.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	8,383,950	8,688,648	9,388,808	10,288,103
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	7,959,608	8,225,701	8,598,499	9,499,403
NET INCOME FROM OPERATIONS	<u>424,342</u>	<u>462,947</u>	<u>790,309</u>	<u>788,700</u>
LESS INTEREST EXPENSE	(184,015)	(124,958)	(51,148)	(102,944)
PLUS CONTRIBUTIONS	230,021	596,995	6,286,803	727,843
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	206,108	195,178	(140,500)	(505,127)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>676,456</u>	<u>1,130,162</u>	<u>6,885,464</u>	<u>908,472</u>
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	<u>957,250</u>	<u>918,000</u>	<u>997,000</u>	<u>3,204,500</u>

DESCRIPTION OF SECURED DEBT (as of most recent fiscal year end)

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
US Department of Agriculture	\$6,916,737	4.00%	2014	2044	30 Years
U.S. Bank	\$3,470,000	2.00% - 4.00%	2014	2040	26 Years
Banc of America	\$1,958,117	2.05%	2013	2019	6 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	<u>2013 CCAC Medians 50th Percentile (optional)</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DEBT TO ASSET RATIO		.13	.23	.27
OPERATING RATIO		.961	.921	.933
DEBT SERVICE COVERAGE RATIO		2.664	13.537	5.338
DAYS CASH ON HAND RATIO		281	525	518

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>
STUDIO	2,367		2,414		2,487	2.75%	2,555
ONE BEDROOM	4,375		4,462		4,596	2.75%	4,723
TWO BEDROOM	5,261		5,367		5,528	2.75%	5,679
COTTAGE/HOUSE	N/A		N/A		N/A	N/A	4,742
ASSISTED LIVING	5,599		5,711		5,883	2.75%	5,979
SKILLED NURSING	310		316		335	2.75%	344
SPECIAL CARE	N/A		N/A		N/A	N/A	7,105

COMMENTS FROM PROVIDER: >

> _____
 > _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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.

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>\$2,094-\$6,252</u>	<u>\$5,075-\$6,978</u>	<u>(daily) \$323-\$365</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>2.75%</u>	<u>2.75%</u>	<u>2.75%</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: 01/01/15
(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 2.75% increase was implemented to keep the Home from experiencing an operating loss and to maintain and improve the facilities.

Date Prepared: 3/3/2016

KEY INDICATORS REPORT

Solvang Lutheran Home, Inc.



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

	Projected										Preferred Trend Indicator	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		2019
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	83.56%	89.44%	79.58%	85.33%	88.32%	88.08%	92.36%	92.98%	93.36%	93.86%	94.36%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	3.22%	2.87%	2.42%	7.48%	7.99%	10.29%	10.34%	11.06%	11.00%	11.00%	11.00%	↑
3. Net Operating Margin - Adjusted (%)	6.20%	8.48%	11.13%	15.38%	18.89%	19.00%	33.27%	20.31%	20.31%	20.31%	20.31%	↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments	\$9,803,893	\$3,954,810	\$4,770,394	\$4,901,460	\$6,853,811	\$13,224,204	13,899,220	\$14,000,000	\$14,000,000	\$14,000,000	\$14,000,000	↑
5. Days Cash on Hand (Unrestricted)	112.45	291.97	147.43	66.31	118.02	310.22	132.00	131.00	133.00	135.00	135.00	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees	\$2,765,243	\$2,374,054	\$2,239,811	\$2,533,467	\$2,753,659	\$2,847,772	\$5,540,813	\$2,750,000	\$2,950,000	\$2,950,000	\$2,950,000	N/A
7. Net Annual Entrance Fee proceeds	\$645,850	\$588,826	\$733,763	\$775,386	\$918,000	\$997,000	\$3,545,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	N/A
8. Unrestricted Net Assets	\$8,437,234	\$7,135,742	\$7,261,506	\$7,508,321	\$9,506,435	\$10,408,164	\$21,932,248	\$22,007,248	\$22,082,248	\$22,157,248	\$22,232,248	N/A
9. Annual Capital Asset Expenditure	\$689,156	\$813,277	\$3,928,671	\$2,415,541	\$1,013,515	\$2,929,563	\$9,568,912	\$1,500,000	\$750,000	\$500,000	\$500,000	N/A
10. Annual Debt Service Coverage												
Revenue Base (\$)	0.446	1.085	4.563	5.479	7.998	22.943	2.323	5.000	5.000	5.000	5.000	↑
11. Annual Debt Service Coverage (x)	4.43	3.12	3.70	5.48	8.53	23.78	6.09	7.00	9.00	11.00	13.00	↑
12. Annual Debt Service/Revenue (%)												
12. Annual Debt Service/Revenue (%)	5.85%	5.14%	6.97%	7.33%	9.38%	6.08%	11.54%	8.00%	8.00%	8.00%	8.00%	↓
13. Average Annual Effective Interest Rate (%)												
13. Average Annual Effective Interest Rate (%)	5.90%	3.53%	4.04%	4.15%	2.30%	0.72%	0.87%	2.00%	2.00%	2.00%	2.00%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)												
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	5.34%	115.48%	56.15%	26.29%	40.38%	62.89%	18.28%	20.00%	20.00%	20.00%	20.00%	↑
15. Average Age of Facility (years)												
15. Average Age of Facility (years)	19	27	20	26	19	20	17	17	17	17	17	↓