

RECEIVED  
APR 30 2013  
CONTINUING CARE  
CONTRACTS BRANCH

**ANNUAL REPORT  
CHECKLIST**  
for  
**FISCAL YEAR ENDED:**  
12/31/12

**PROVIDER(S):** SOLHEIM LUTHERAN HOME +

**CCRC(S):** SAME

**CONTACT PERSON:** ANTONIO DAVILA

**TELEPHONE NO.:** ( 323 ) 257-7518 **EMAIL:** ADavila@solheimlutheran.org

The **complete** annual report must consist of **three (3) copies** of the following:

- Checklist.#
- Annual Provider Fee in the amount of: \$ 6,018.00
  - If applicable, Late Fee in the amount of: \$ \_\_\_\_\_
- Certification by the provider's *chief executive officer* that:
  - The reports are correct to the best of his/her knowledge and belief.
  - Each continuing care contract form in use for new residents has been approved by CDSS.
  - The provider is maintaining the required liquid reserves and refund reserves, if applicable.
- Evidence of the provider's fidelity bond.
- Provider's audited financial statements with a certified public accountant's opinion.  
NOTE: Statement of Cash Flows must be prepared using the direct method.
- Provider's audited reserve reports (on Department forms) with a certified public accountant's opinion.  
NOTE: If the entries on these forms do not directly reconcile with the amounts stated, on the face of, or in the notes to, the financial statements, a two-way reconciliation schedule must be included.
- "Continuing Care Retirement Community Disclosure Statement" for **each** community.
- "Key Indicators Report"  
NOTE: The KIR may be included with this submission, but it is not required at this time. The KIR is due within the next 30 days. Please ensure that three (3) signed copies are submitted.



RECEIVED

SOLHLUT-01

MJOHNSON

# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
4/16/2013

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).

<b>PRODUCER</b> Lutheran Trust 1500 Wall St. Saint Charles, MO 63303	<b>CONTACT NAME:</b> Maliea K. Johnson	
	<b>PHONE (A/C, No, Ext):</b> (800) 200-7257	<b>FAX (A/C, No):</b> (866) 608-0600
<b>E-MAIL ADDRESS:</b> maliea@lcam.com		
<b>INSURER(S) AFFORDING COVERAGE</b>		<b>NAIC #</b>
<b>INSURER A :</b> GuideOne Mutual Insurance Company		<b>15032</b>
<b>INSURER B :</b> GuideOne Specialty Mutual Insurance Company		<b>14559</b>
<b>INSURER C :</b>		
<b>INSURER D :</b>		
<b>INSURER E :</b>		
<b>INSURER F :</b>		

**INSURED**

Solhelm Lutheran Home  
 2236 Merton Avenue  
 Mr. Antonio Davila  
 Los Angeles, CA 90041-1915

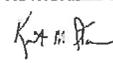
**COVERAGES**                      **CERTIFICATE NUMBER:**                      **REVISION NUMBER:**

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

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	<b>GENERAL LIABILITY</b>						EACH OCCURRENCE	\$
	<input type="checkbox"/> COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence)	\$
	<input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR						MED EXP (Any one person)	\$
							PERSONAL & ADV INJURY	\$
							GENERAL AGGREGATE	\$
	GEN'L AGGREGATE LIMIT APPLIES PER:						PRODUCTS - COMP/OP AGG	\$
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC							\$
<b>A</b>	<b>AUTOMOBILE LIABILITY</b>			<b>6011-077</b>	<b>12/1/2011</b>	<b>12/1/2012</b>	COMBINED SINGLE LIMIT (Ea accident)	<b>\$ 1,000,000</b>
	<input checked="" type="checkbox"/> ANY AUTO						BODILY INJURY (Per person)	\$
	<input type="checkbox"/> ALL OWNED AUTOS						BODILY INJURY (Per accident)	\$
	<input checked="" type="checkbox"/> HIRED AUTOS						PROPERTY DAMAGE (PER ACCIDENT)	\$
	<input checked="" type="checkbox"/> HCPD \$250							\$
	<input checked="" type="checkbox"/> SCHEDULED AUTOS							\$
	<input checked="" type="checkbox"/> NON-OWNED AUTOS							\$
	<input checked="" type="checkbox"/> HCPD \$500 C							\$
	<b>UMBRELLA LIAB</b>						EACH OCCURRENCE	\$
	<input type="checkbox"/> OCCUR						AGGREGATE	\$
	<b>EXCESS LIAB</b>							\$
	<input type="checkbox"/> CLAIMS-MADE							\$
	DED						RETENTION \$	
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b>						WC STATU-TORY LIMITS	OTH-ER
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)						E.L. EACH ACCIDENT	\$
	If yes, describe under DESCRIPTION OF OPERATIONS below			N/A			E.L. DISEASE - EA EMPLOYEE	\$
							E.L. DISEASE - POLICY LIMIT	\$
<b>B</b>	<b>Property</b>			<b>1260-492</b>	<b>12/1/2011</b>	<b>12/1/2012</b>	<b>Property - Blanket</b>	<b>20,171,800</b>

**DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)**  
 Property - Special Including Theft, 100% Coinsurance, \$500 Deductible, Agreed Value, Inflation Protection and Replacement Cost apply.

Crime - Bond Form A - Employee Dishonesty \$1,000,000 Limit with \$100 Deductible  
 Bond Form B - Forgery & Alterations \$1,000,000 Limit with \$100 Deductible  
 Bond Form C - Theft, Disappearance & Destruction \$5,000 Premises Limit with \$100 deductible, \$5,000 Messengers Limit with \$100 deductible.

<b>CERTIFICATE HOLDER</b>  State of California Department of Social Services 744 P Street, MS 8-3-90 Sacramento, CA 95814	<b>CANCELLATION</b>  SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.  AUTHORIZED REPRESENTATIVE 
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MARTIN WERBELOW LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101  
TEL: (626) 577-1440 FAX: (626) 577-1082



### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Solheim Lutheran Home

We have audited the accompanying continuing care reserve report ("Reports") of Solheim Lutheran Home ("Solheim") as of December 31, 2012. These Reports are the responsibility of Solheim's management. Our responsibility is to express an opinion on the Reports based on our audit.

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

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

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of Solheim as of December 31, 2012, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

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

April 24, 2013

*Martin Werbelow LLP*

**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	86
[3]	Total Lines 1 and 2	180
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	90
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	162
[7]	Number at end of fiscal year	160
[8]	Total Lines 6 and 7	322
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	161
[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).	0.56

**FORM 1-2  
ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$11,446,063
[a]	Depreciation	\$565,084
[b]	Debt Service (Interest Only)	\$114,829
[2]	Subtotal (add Line 1a and 1b)	\$679,913
[3]	Subtract Line 2 from Line 1 and enter result.	\$10,766,150
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	56%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$6,018,345
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$6,018

**PROVIDER:**  
**COMMUNITY:**

SOLHEIM LUTHERAN HOME

**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	12/2/2004	\$500,000	\$117,538		\$617,538
2	11/13/2006	\$34,340	\$32,940		\$67,280
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>			\$150,478	\$0	\$684,818

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

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

**PROVIDER: SOLHEIM LUTHERAN HOME**

**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
<b>TOTAL:</b>		\$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: SOLHEIM LUTHERAN HOME**

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

Line	TOTAL
1 Total from Form 5-1 bottom of Column (e)	\$684,818
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)	
4 <b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>	<b>\$684,818</b>

**PROVIDER: SOLHEIM LUTHERAN HOME**

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$11,446,063
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$150,478
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	\$565,084
	d. Amortization	\$38,370
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$5,933,871
	f. Extraordinary expenses approved by the Department	
3	Total Deductions	\$6,687,803
4	Net Operating Expenses	\$4,758,260
5	Divide Line 4 by 365 and enter the result.	\$13,036
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$977,725
<p><b>PROVIDER: SOLHEIM LUTHERAN HOME</b></p> <p><b>COMMUNITY:</b></p>		

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

Provider Name: SOLHEIM LUTHERAN HOME  
 Fiscal Year Ended: 12/31/2012

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.

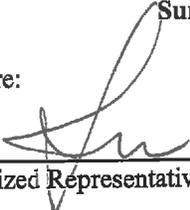
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$684,818</u>
[2] Operating Expense Reserve Amount	<u>\$977,725</u>
[3] Total Liquid Reserve Amount:	<u>\$1,662,543</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$102,715</u>	<u>\$999,349</u>
[5] Investment Securities		<u>\$479,687</u>
[6] Equity Securities		<u>\$1,414,756</u>
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$733,710</u>	(not applicable)
[10] Other: <u>(describe qualifying asset)</u>		
<b>Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]</b>	<u>\$836,425</u> [12]	<u>\$2,893,792</u>
<b>Reserve Obligation Amount: [13]</b>	<u>\$684,818</u> [14]	<u>\$977,725</u>
<b>Surplus/(Deficiency): [15]</b>	<u>\$151,607</u> [16]	<u>\$1,916,067</u>

Signature:



(Authorized Representative)

Date:

04/26/13

Director of Finance & CFO

(Title)

**FORM 5-5 - ADDITIONAL DISCLOSURE**

■ **Description of all Reserves maintained**

	December 31	
	2012	2011
<b>Funds Held by Trustees</b>		
<i>2004 Refunding Revenue Bond Funds:</i>		
Payment of interest	\$16,882	\$22,096
Revenue fund	\$0	\$0
Payment of principal	\$85,833	\$83,333
Bond reserve fund	\$733,710	\$723,085
	\$836,425	\$828,514
Less: Held for current debt payments	\$517,869	\$520,577
	\$318,556	\$307,937
<b>Board Designated Funds</b>		
Benevolent Endowment	\$512,223	\$486,545
Capital replacement	\$50,181	\$50,183
	\$562,404	\$536,728
<b>Other Limited Uses</b>		
Temporarily Restricted Fund	\$2,364	\$8,621
Restricted Fund	\$8,597	\$7,997
Accrued interest and dividends on investments	\$4,841	\$3,801
	\$15,802	\$20,419
<b>Total Limited Use Assets</b>	<b>\$896,762</b>	<b>\$865,084</b>

Status: These funds are fully funded.

■ **Funds Accumulated for Specific Projects or Purposes**

- 2004 Bond Project funds are reserved to finance the construction, renovation, remodeling, and other capital projects. \$617,538 were expended during the fiscal year for the debt service.
- The Benevolent Endowment fund will be used to support charitable care for residents
- The Capital Replacement fund is set aside to comply with the terms of the 2004 Refunding Revenue Bonds
- The Temporarily Restricted fund is set aside for acquisition of facilities and equipment, charity care for residents, activity and other programs for the residents. \$39,421 were released from restrictions during the fiscal year as follows: \$4,380 for resident's charity care, \$12,416 for technology items for the resident, \$18,509 for capital improvements and \$4,116 for resident activities
- The Restricted fund is set aside for nurse's education scholarship for Solheim's employees

■ **Per Capita Cost of Operations**

Total operating Expenses (Form 5-4, Line 1)	\$11,446,063
Mean number of all residents (Form 1-1, Line 10)	161.0
Average Per Capita Cost Annual	\$71,094
Divided by Days Per Year	365
Average Per Capita Cost Daily	\$195

**PROVIDER: SOLHEIM LUTHERAN HOME**

**TWO-WAY RECONCILIATION**

<b>Line</b>		<b>TOTAL</b>
1	Revenues received during the fiscal year for services to persons who did not have a continuing care contract reported on Form 5-4, Line 2(e)	<u>\$5,933,871</u>
2	Revenues received during the fiscal year for services to persons who did have a continuing care contract	<u>\$4,984,500</u>
3	Revenues received from residents for monthly services reported on Statement of Cash Flows - Direct Method	<u><u>\$10,918,371</u></u>

**PROVIDER: SOLHEIM LUTHERAN HOME**

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

04/28/2013



FACILITY NAME: SOLHEIM LUTHERAN HOME  
 ADDRESS: 2236 MERTON AVENUE ZIP CODE: 90041 PHONE: (323) 257-7518  
 PROVIDER NAME: SAME FACILITY OPERATOR: SAME  
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: LUTHERAN  
 YEAR OPENED: 1923 NO. OF ACRES: 3 MULTI-STORY:  SINGLE STORY:  BOTH:   
 MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>32</u>	ASSISTED LIVING <u>35</u>
APARTMENTS - 1 BDRM	<u>5</u>	SKILLED NURSING <u>76</u>
APARTMENTS - 2 BDRM	<u>        </u>	SPECIAL CARE <u>45</u>
COTTAGES/HOUSES	<u>        </u>	DESCRIBE SPECIAL CARE: <u>MEMORY CARE</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: \$ 48,000 TO \$ 104,000 LONG-TERM CARE INSURANCE REQUIRED?  Y  N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: SNF discounts for residents with continuing care contracts

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

**FACILITY SERVICES AND AMENITIES**

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>2</u>	<u>        </u>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>3</u>	<u>        </u>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<u>YES</u>	<u>        </u>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	OTHER <u>CLOTHES LAUNDERED</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>			
OTHER <u>        </u>	<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: SOLHEIM LUTHERAN HOME

	2009	2010	2011	2012
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (excluding amortization of entrance fee income)	\$9,908,085	\$10,589,935	\$10,465,116	\$11,224,119
<b>LESS OPERATING EXPENSES</b> (excluding depreciation, amortization, & interest)	\$9,821,594	\$10,151,881	\$10,327,523	\$10,727,780
<b>NET INCOME FROM OPERATIONS</b>	\$86,491	\$438,054	\$137,593	\$496,339
<b>LESS INTEREST EXPENSE</b>	\$156,911	\$144,323	\$130,067	\$114,829
<b>PLUS CONTRIBUTIONS</b>	\$136,132	\$192,676	\$203,437	\$148,736
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	\$231,991	\$94,665	-\$19,116	\$42,756
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	\$297,703	\$581,072	\$191,847	\$573,002
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	\$766,881	\$601,437	\$439,483	\$699,623

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CHFFA	\$2,755,000	3.25	12/01/04	11/01/17	13 YEARS
Mission Investment Fund	\$692,291	4.63	11/13/06	11/12/26	20 YEARS

**FINANCIAL RATIOS (see next page for ratio formulas)**

	2009 CCAC Medians 50 <sup>th</sup> Percentile (optional)	2010	2011	2012
<b>DEBT TO ASSET RATIO</b>		33.5%	29.6%	24.8%
<b>OPERATING RATIO</b>		96.3%	99.9%	95.9%
<b>DEBT SERVICE COVERAGE RATIO</b>		1.86	1.52	2.19%
<b>DAYS CASH-ON-HAND RATIO</b>		120	107	117

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

	2009	%	2010	%	2011	%	2012
STUDIO	\$2,390	4.6%	\$2,500	2.0%	\$2,550	3.0%	\$2,625
ONE BEDROOM	\$2,920	2.7%	\$3,000	2.0%	\$3,060	3.0%	\$3,125
TWO BEDROOM	\$3,995	0.0%		0.0%		0.0%	
COTTAGE/HOUSE		0.0%		0.0%		0.0%	
ASSISTED LIVING	\$3,680	3.3%	\$3,800	2.0%	\$3,875	3.0%	\$3,990
SKILLED NURSING	\$219	4.1%	\$228	2.0%	\$233	3.0%	\$240
SPECIAL CARE	\$4,715	1.8%	\$4,800	2.0%	\$4,900	3.0%	\$5,045

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

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

#### 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.

*Financial Statements*

**SOLHEIM LUTHERAN HOME**

For the Years Ended December 31, 2012 and 2011



**SOLHEIM LUTHERAN HOME  
DECEMBER 31, 2012**

**LIST OF BOARD MEMBERS AND OFFICERS**

PRESIDENT	Audrey Bahr
VICE PRESIDENT	Annette Brende
SECRETARY	Reta Floyd, MD
TREASURER	Adam Sisson, CPA
EXECUTIVE DIRECTOR	James W. Graunke
CHIEF FINANCIAL OFFICER	Antonio Davila
MEMBER	Dr. Jill M. Brink
MEMBER	Sue Clauss
MEMBER	Paul Egge
MEMBER	AnnMarie Flaherty, CPA
MEMBER	Tracy King
MEMBER	William L. Krantz
MEMBER	Kenneth Martin
MEMBER	Joel F. Miller
MEMBER	Rev. Kathleen Richter
MEMBER	Masa Suzuki
MEMBER	Jim Tranquada
BISHOP'S REPRESENTATIVE, SOUTHWEST CALIFORNIA SYNOD	Reta Floyd, MD
RESIDENT REPRESENTATIVE	Patti Cox

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MARTIN WERBELOW LLP

CERTIFIED PUBLIC ACCOUNTANTS

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TEL: (626) 577-1440 FAX: (626) 577-1082

INDEPENDENT AUDITOR'S REPORT

RECEIVED  
APR 30 2013

CONTINUING CARE  
CONTRACTS BRANCH

To the Board of Directors of  
Solheim Lutheran Home

We have audited the accompanying financial statements of Solheim Lutheran Home (a nonprofit organization, "Solheim"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solheim as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Direct Costs by Cost Center, on page 28, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



April 24, 2013

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011**

**ASSETS**

	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash and cash equivalents - unrestricted	\$ 999,349	\$ 289,565
Investments - General Fund (Note 4)	1,894,443	2,302,682
Cash and investments held by Trustee for current debt payments	517,869	520,577
Accounts receivable, net (Note 3)	535,364	590,513
Accrued interest and dividends receivable	1,527	4,701
Prepaid expenses and other current assets	133,531	149,927
<b>Total Current Assets</b>	<b>4,082,083</b>	<b>3,857,965</b>
<b>Limited Use Assets</b>		
Cash and investments held by Trustee (Note 5)	836,425	828,514
Less: Held for current debt payments	517,869	520,577
	318,556	307,937
Investments - Board Designated Fund for Benevolent Endowment (Note 6)	512,223	486,545
Investments - Board Designated Fund for Capital Replacement (Note 6)	50,181	50,183
Investments - temporarily restricted (Note 6)	2,364	8,621
Investments - permanently restricted (Note 6)	8,597	7,997
Accrued interest and dividends on investments held by Trustee	4,841	3,801
<b>Total Limited Use Assets</b>	<b>896,762</b>	<b>865,084</b>
<b>Facilities and Equipment, Net (Note 9)</b>	<b>6,234,561</b>	<b>6,488,370</b>
<b>Other Assets</b>		
Deferred costs related to Refunding Revenue Bonds (Note 10)		
Bond issuance costs, net of amortization	72,551	87,305
Prepaid insurance costs on Refunding Revenue Bonds	116,117	139,733
Deferred costs related to future expansion (Note 11)	286,840	221,452
<b>Total Other Assets</b>	<b>475,508</b>	<b>448,490</b>
<b>Total Assets</b>	<b>\$11,688,914</b>	<b>\$11,659,909</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

**LIABILITIES AND NET ASSETS**

	<b>2012</b>	<b>2011</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 297,049	\$ 272,687
Accrued payroll and payroll taxes	161,219	123,203
Accrued vacations and personal time	238,551	250,045
Long-term debt, current portion (Notes 12 and 13)	551,025	534,309
Refundable entrance fees, current (Note 14)	248,298	283,241
Accrued interest payable on long-term debt	20,578	23,430
<b>Total Current Liabilities</b>	<b>1,516,720</b>	<b>1,486,915</b>
<b>Other Liabilities</b>		
Refunding Revenue Bonds, net of current portion (Note 12)	2,240,000	2,755,000
Other long-term debt, net of current portion (Note 13)	656,265	692,322
Refundable entrance fees, long-term (Note 14)	172,221	169,130
Deferred revenue - entrance fees (Note 15)	1,965,043	2,047,759
<b>Total Other Liabilities</b>	<b>5,033,529</b>	<b>5,664,211</b>
<b>Total Liabilities</b>	<b>6,550,249</b>	<b>7,151,126</b>
<b>Net Assets</b>		
Unrestricted		
General Fund	4,565,300	3,955,437
Board Designated Fund for Benevolent Endowment	512,223	486,545
Board Designated Fund for Capital Replacement	50,181	50,183
<b>Total Unrestricted Net Assets</b>	<b>5,127,704</b>	<b>4,492,165</b>
Temporarily restricted net assets	2,364	8,621
Permanently restricted net assets	8,597	7,997
<b>Total Net Assets</b>	<b>5,138,665</b>	<b>4,508,783</b>
<b>Total Liabilities And Net Assets</b>	<b>\$11,688,914</b>	<b>\$11,659,909</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Changes in Unrestricted Net Assets</b>		
<b>Operating Revenues</b>		
Skilled Nursing level - resident fees (Note 2)	\$ 5,849,643	\$ 5,431,752
Residential level - resident fees (Note 2)	637,352	809,043
Assisted Living level - resident fees (Note 2)	1,877,577	1,507,601
Memory Care level - resident fees (Note 2)	1,907,162	2,047,926
Ancillary services to residents (Note 2)	751,896	453,361
Other monthly fees	68,258	87,734
Entrance fees earned (Note 15)	665,991	656,713
Processing fees	10,000	12,500
Interest and dividends	106,964	99,182
Contributions	109,315	152,904
Other income	15,267	16,017
Net assets released from restrictions	39,421	50,533
	<b>12,038,846</b>	<b>11,325,266</b>
<b>Operating Expenses</b>		
Direct costs	10,683,763	10,283,065
Depreciation (Note 9)	565,084	548,809
Amortization expense - bond issue costs	38,370	38,370
Interest expense	114,829	130,067
Equipment leases (Note 18)	18,346	18,671
Property taxes and insurance	25,671	25,787
	<b>11,446,063</b>	<b>11,044,769</b>
<b>Increase in Unrestricted Net Assets From Operations</b>	<b>592,783</b>	<b>280,497</b>
<b>Investment Income (Loss)</b>		
Net unrealized gain on investments	8,778	6,377
Net realized gains on investments	77,817	44,573
Net rental loss (Note 18)	(43,839)	(70,066)
	<b>42,756</b>	<b>(19,116)</b>
<b>Change in Unrestricted Net Assets</b>	<b>\$ 635,539</b>	<b>\$ 261,381</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

	<b>2012</b>	<b>2011</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions		
For charity care	\$ 4,380	\$ 5,110
For acquisitions of facilities and equipment	25,718	53,872
For activities and other programs	3,066	172
<b>Contributions Received</b>	<b>33,164</b>	<b>59,154</b>
Net Assets Released from Restrictions		
Funds used for charity care	(4,380)	(5,110)
Funds used for facilities and equipment	(30,925)	(45,251)
Funds used for activities and other programs	(4,116)	(172)
<b>Net Assets Released From Restrictions</b>	<b>(39,421)</b>	<b>(50,533)</b>
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<b>(6,257)</b>	<b>8,621</b>
<b>Changes in Permanently Restricted Net Assets</b>		
Earnings on permanently restricted net assets	600	558
<b>Increase in Net Assets</b>	<b>629,882</b>	<b>270,560</b>
<b>Net Assets, Beginning of Year</b>	<b>4,508,783</b>	<b>4,238,223</b>
<b>Net Assets, End of Year</b>	<b>\$ 5,138,665</b>	<b>\$ 4,508,783</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Unrestricted Net Assets</b>		
<b>Unrestricted Net Assets in General Fund</b>		
Balance, beginning of year	\$ 3,955,437	\$ 3,738,131
Increase in General Fund net assets	635,539	261,381
Transfers to Board Designated Fund for Benevolent Endowment	(999)	(32,583)
Transfer from Board Designated Fund for Capital Replacement	2	-
Transfer of investments earnings to Board Designated Fund for Benevolent Endowment	(24,679)	(11,492)
<b>Balance, End of Year</b>	<b>4,565,300</b>	<b>3,955,437</b>
<b>Board Designated Fund for Benevolent Endowment (Note 6)</b>		
Balance, beginning of year	486,545	441,727
Transfers from General Fund	999	32,583
Earnings on Board Designated Fund for Benevolent Endowment	24,679	11,492
Transfer from Board Designated Fund for Capital Replacement	-	743
<b>Balance, End of Year</b>	<b>512,223</b>	<b>486,545</b>
<b>Board Designated Fund for Capital Replacement (Note 6)</b>		
Balance, beginning of year	50,183	50,926
Transfer to General Fund	(2)	-
Transfer to Board Designated Fund for Benevolent Endowment	-	(743)
<b>Balance, End of Year</b>	<b>50,181</b>	<b>50,183</b>
<b>Total Unrestricted Net Assets, End of Year</b>	<b>\$ 5,127,704</b>	<b>\$ 4,492,165</b>
<b>Temporarily Restricted Net Assets</b>		
Balance, beginning of year	8,621	-
Increase (decrease) in temporarily restricted net assets	(6,257)	8,621
<b>Balance, End of Year</b>	<b>\$ 2,364</b>	<b>\$ 8,621</b>
<b>Permanently Restricted Net Assets</b>		
Balance, beginning of year	7,997	7,439
Increase in permanently restricted net assets	600	558
<b>Balance, End of Year</b>	<b>\$ 8,597</b>	<b>\$ 7,997</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from residents for monthly services	\$10,918,371	\$10,296,792
Cash received from residents for entrance fees	756,548	544,907
Cash received from services to others	68,385	74,371
Interest and dividends received	109,098	99,872
Contributions received	142,479	212,057
Cash paid to employees and suppliers	(10,635,496)	(10,292,097)
Interest paid on Refunding Revenue Bonds and long-term debt	(150,476)	(178,009)
<b>Net Cash Provided by Operating Activities</b>	<u>1,208,909</u>	<u>757,893</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(1,057,577)	(312,969)
Sales of investments	1,532,991	703,938
Net cash transferred to Trustee	(7,911)	(17,264)
Purchases of facilities and equipment	(311,275)	(431,057)
Proceeds from sale of equipment	1,300	-
Deferred costs related to future expansion	(65,388)	(6,426)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>92,140</u>	<u>(63,778)</u>
<b>Cash Flows from Financing Activities</b>		
Entrance fees refunded	(56,925)	(105,424)
Principal payment on long-term debt	(534,340)	(513,512)
<b>Net Cash Used in Financing Activities</b>	<u>(591,265)</u>	<u>(618,936)</u>
<b>Increase in Cash and Cash Equivalents</b>	709,784	75,179
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>289,565</u>	<u>214,386</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 999,349</u>	<u>\$ 289,565</u>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies**

**Mission Statement**

To provide abundant living for older adults in a caring, faith-based community filled with love, peace, dignity and security.

**General**

Solheim is a not-for-profit continuing care retirement community located in the city of Los Angeles. Solheim is affiliated with the Evangelical Lutheran Church in America ("ELCA") as a social ministry organization. Solheim has a capacity of 196 residents who reside at four care levels: residential, assisted living, memory care, and skilled nursing. Solheim is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is regulated by the California Department of Public Health and by the California Department of Social Services, Community Care Licensing, and Continuing Care Contracts Branch.

**Basis of Accounting**

Solheim uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

**Basis of Presentation**

Solheim's financial statement presentation follows the recommendations prescribed by U.S. GAAP. In accordance with U.S. GAAP, Solheim is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Cash and Cash Equivalents**

Solheim considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Investments**

All investments of Solheim, including those held by its Trustee, are carried at fair value in accordance with U.S. GAAP. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying statements of activities. Donated securities are recorded at their market value at the date of donation. Dividends and interest income are recorded when earned.

Investment management fees were \$16,094 and \$16,287, for December 31, 2012 and 2011, respectively.

**Other-Than-Temporary Impairments of Investments**

Solheim determines whether a decline in the fair value of investments below the cost basis is other-than-temporary based on objective evidence as well as subjective factors including knowledge of recent events and assumptions regarding future events. If the decline in fair value is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in operating revenues and expenses.

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)**

**Accounts Receivable**

Solheim carries its accounts receivable at cost less allowance for uncollectible accounts. Solheim provides for an allowance for uncollectible accounts based on management's assessment of the collectability of existing specific accounts, a history of past write-offs, and collections. Accounts receivable are written off as uncollectible at the time management determines that collection is unlikely.

**Facilities and Equipment**

Depreciation on facilities and equipment is computed on a straight-line basis, with useful lives ranging from five to forty years, depending on the asset category. Acquisitions of \$500 or more with a useful life of more than two years are capitalized. Purchased assets are recorded at cost. Donated assets are recorded at estimated fair value at date of donation. Repairs and maintenance are charged to expense in the period incurred; major renewals and betterments are capitalized.

**Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Temporarily restricted contributions are reported as such, until the restrictions specified by the donors have been satisfied, at which time they become part of unrestricted net assets.

**Revenue Recognition**

Resident fees and ancillary services revenue are recognized as services are performed. Payments are received from residents, insurance companies, Medicare, Medi-Cal, and other third-party payers.

**Net Assets**

Solheim's net assets comprise the following:

**Unrestricted Net Assets**

Unrestricted net assets represent the portion of expendable net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These net assets are available for support of the ordinary operations and administration of Solheim. Unrestricted net assets also include board designated net assets. These board designated net assets include the Board Designated Fund for Benevolent Endowment and the Board Designated Fund for Capital Replacement (Note 6).

**Temporarily Restricted Net Assets**

In 2012, Solheim received temporarily restricted contributions of \$33,164, to be applied toward charity care for those residents with insufficient funds, construction of facilities, acquisition of equipment, or activities and other programs. Solheim applied \$39,421, of temporarily restricted net assets for these purposes during the year, resulting in a decrease of \$6,257, in temporarily restricted net assets for the year ended December 31, 2012.

In 2011, Solheim received temporarily restricted contributions of \$59,154, to be applied toward charity care for those residents with insufficient funds, construction of facilities, acquisition of other equipment, or activities and other programs. Solheim applied \$50,533, of temporarily restricted net assets for these purposes during the year, resulting in an increase of \$8,621, in temporarily restricted net assets for the year ended December 31, 2011.

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)**

**Net Assets (continued)**

**Permanently Restricted Net Assets**

Permanently restricted net assets include contributions and earnings thereof to be used for nurses' education. No scholarships were awarded in 2012 or 2011.

**Workers' Compensation and Liability Insurance**

Solheim is self-insured for workers' compensation. Solheim participates with other self-insured members with a California not-for-profit mutual benefit corporation. Each member is jointly and severally liable for the expenses and obligations of the group and for the workers' compensation liability of all members incurred while a member of the group. As part of Solheim's membership, a one-time capital contribution of \$118,617, was paid in 2003, and the entire amount of this capital contribution has been returned to Solheim as of June 1, 2008. Additionally, Solheim is required to pay an annual premium.

Solheim participates in a risk retention group for its liability insurance. The liability of Solheim is limited to the amount of funds contributed in its custodial account, and Solheim is not responsible for any other participating members' liabilities. Solheim is required to pay an annual premium.

**Income Taxes**

Solheim is organized as a not-for-profit corporation under the general not-for-profit corporation laws of the State of California and is exempt from federal income taxation under IRC section 501(c)(3). Not-for-profit organizations are generally not liable for taxes on income; therefore, no provision is made for such taxes in the financial statements.

Solheim considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Solheim evaluates its uncertain tax positions using the provisions in conformity with U.S. GAAP. These standards require management to perform an evaluation of all income tax positions taken, or expected to be taken in the course of preparing Solheim's income tax returns. Management believes the income tax positions taken more likely than not will be sustained under examination by the applicable tax authorities. Examples of tax positions include the tax-exempt status of Solheim and various positions related to the potential sources of unrelated business taxable income. Since tax matters are subject to some degree of uncertainty, there can be no assurance that Solheim's tax returns will not be challenged by the taxing authorities and that Solheim will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, Solheim's tax returns remain open for three years for federal income tax examination and four years for state income tax examination.

**Amortization**

Costs incurred in connection with the 2004 Refunding Revenue Bonds are being amortized over the life of the bonds. Prepaid bond insurance is also amortized over the life of the bond.

**Advertising**

Solheim expenses advertising costs as they are incurred. Advertising costs expensed during 2012 and 2011 were approximately \$25,000 and \$17,000, respectively.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used by management in the preparation of the financial statements include: the allowance for uncollectible accounts receivable, depreciable lives and estimatable residual value of facilities and equipment, amortization period of deferred costs, fair value of investments, deferred revenue and amortization of entrance fees, and the obligation to provide future services and use of the facilities in excess of amounts received or to be received for such services.

**Note 2 – Facilities, Resident Services, and Programs**

Solheim has facilities and equipment to care for a population of 75 persons in residential and assisted living, 45 persons in the Morgan and Anna Halvorson Special Care Unit for those with Alzheimer's disease and other forms of cognitive impairment, and 76 persons in the Elizabeth C. Batchelder Skilled Nursing Facility. Solheim owns land and a building at 2265 Fair Park Avenue, an adjacent street, which is used to support its charitable activities. In 2006, Solheim purchased adjacent land and buildings at 2221 Fair Park Avenue to be used for future expansion.

The Skilled Nursing Facility is certified under both Medi-Cal (State program) and Medicare (Federal program). Solheim is also licensed for residential care, assisted living, and memory care. Ancillary services offered to residents include pharmacy consulting, laboratory and radiology services, and physical, occupational and speech therapies, and a well-equipped wellness center.

Solheim reduces the monthly fee charged to residents below the full rate for those residents whose personal funds are not sufficient and who are not eligible for government assistance. The total subsidy provided was approximately \$163,000 for 11 residents in 2012 and approximately \$172,000 for 12 residents in 2011. These amounts are recorded as reductions in operating revenues in the accompanying statements of activities.

Solheim partners with several local organizations and institutions to promote education, spiritual growth, and excellence in aging in surrounding communities. Solheim is a clinical instruction site for several programs that train registered nurses, licensed vocational nurses, certified nursing assistants and physicians.

Lutheran Health Ministries of the Foothills (“LHMF”), together with Solheim as fiscal agent, supports a health ministries program, which provides a parish nurse, visitation pastor and health promotion activities to parishioners and seniors in the cities of Glendale and La Canada-Flintridge.

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**Note 3 – Accounts Receivable, Net**

Accounts receivable consists of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Monthly fees – private payers	\$ 281,922	\$ 151,325
Monthly fees – Medi-Cal	107,001	161,852
Monthly fees – Medicare	244,261	204,748
Other payors	64,180	61,388
Entrance fees	38,000	186,200
	<u>735,364</u>	<u>765,513</u>
Less allowance for uncollectible accounts	<u>(200,000)</u>	<u>(175,000)</u>
Accounts receivable, net	<u>\$ 535,364</u>	<u>\$ 590,513</u>

**Note 4 – Investments - General Fund**

The following table presents Solheim's General Fund investments as of December 31, 2012 and 2011:

<u>2012</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts and certificates of deposit	\$ 438,298	\$ 436,447
Corporate bonds	41,389	41,410
Equity securities	1,414,756	1,309,877
	<u>\$ 1,894,443</u>	<u>\$ 1,787,734</u>
<u>2011</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts and certificates of deposit	\$ 808,605	\$ 802,441
Corporate bonds	37,939	42,657
Equity securities	1,456,138	1,347,979
	<u>\$ 2,302,682</u>	<u>\$ 2,193,077</u>

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**Note 5 – Cash and Investments Held by Trustee**

The following trust funds were held and invested at December 31, 2012 and 2011, by U. S. Bank, San Francisco, California, Trustee for the 2004 Refunding Revenue Bonds and allocated for the following purposes:

<u>2012</u>	<u>Money Market Accounts</u>	<u>Other Investments</u>	<u>Total</u>
Bond reserve fund	\$ 10,880	\$ 709,000	\$ 719,880
Interest fund	16,882	-	16,882
Principal account	85,833	-	85,833
Total, at cost	113,595	709,000	822,595
Add: Unrealized gain	-	13,830	13,830
Total, at Aggregate Market Value	<u>\$ 113,595</u>	<u>\$ 722,830</u>	<u>\$ 836,425</u>

<u>2011</u>	<u>Money Market Accounts</u>	<u>Other Investments</u>	<u>Total</u>
Bond reserve fund	\$ 139,600	\$ 559,000	\$ 698,600
Interest fund	22,097	-	22,097
Principal account	83,333	-	83,333
Total, at cost	245,030	559,000	804,030
Add: Unrealized gain	-	24,484	24,484
Total, at Aggregate Market Value	<u>\$ 245,030</u>	<u>\$ 583,484</u>	<u>\$ 828,514</u>

As of December 31, 2012, other investments consisted of one money market fund and nine certificates of deposit. As of December 31, 2011, other investments consisted of one money market fund and seven certificates of deposit.

**Note 6 – Designated Investments**

**Endowment Funds**

Solheim's endowment consists of two funds. The endowment includes both a donor restricted endowment fund and a fund designated by the Board of Directors to function as an endowment. Solheim has interpreted relevant state law as requiring preservation of the fair value of the original gift as of the date gifted for the donor restricted endowment funds explicit donor stipulations to the contrary.

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**Note 6 – Designated Investments (continued)**

**Endowment Funds (continued)**

In 2002, the Board of Directors combined the previously designated Charity Care Reserve with the Endowment Fund to create the Board Designated Fund for Benevolent Endowment. This fund was designated by the Board of Directors for the purpose of supporting charitable care to residents. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Solheim also has a donor restricted endowment fund, which is classified as permanently restricted. The donor requires the historical dollar amount of a donor restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on this donor restricted endowment fund is spendable. The restriction stipulates that funds are to be used for nurses' education.

The goals of the endowment funds are as follows: (a) maintain purchasing power; (b) maintain the level of programs and services currently provided; (c) maximize return within reasonable and prudent levels of risk; and (d) maintain an appropriate asset allocation based on a total return policy that is compatible with the spending policy, while still having the potential to produce positive real returns.

With this long-term objective in mind, the portfolio is invested subject to the same guidelines of the general fund as follows:

1. Fixed income securities representing 40-60% of total investments to act as a deflation hedge and serve as a reliable source of income. All such investments shall be listed on an established public market, or guaranteed by the U.S. government or agency. The current yield shall hedge against the loss of income.
2. Equity Securities shall not exceed 60% of total investments. No holding of any one stock may exceed 10% of the total equity portfolio.
3. Certificates of deposits shall be with institutions guaranteed by the Federal Deposit Insurance Commission ("FDIC") and shall not exceed \$100,000 in any single institution. Each institution must have total assets in excess of \$100 million.
4. There are no margin transactions, short selling, or commodity transactions.

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**Note 6 – Designated Investments (continued)**

**Endowment Funds (continued)**

Solheim's endowment funds as of December 31, 2012, and 2011 are as follows:

<u>2012</u>	<u>Aggregate Fair Value</u>	<u>Cost</u>
Board Designated Fund for Benevolent Endowment		
Money market account	\$ 12,596	\$ 12,596
Certificate of deposit	28,669	28,565
Equity securities	470,958	270,372
Total	<u>\$ 512,223</u>	<u>\$ 311,533</u>
Permanently Restricted Corporate bonds		
	<u>\$ 8,597</u>	<u>\$ 8,594</u>

<u>2011</u>	<u>Aggregate Fair Value</u>	<u>Cost</u>
Board Designated Fund for Benevolent Endowment		
Money market account	\$ 11,493	\$ 11,493
Certificate of deposit	27,667	27,566
Corporate bonds	49,700	50,004
Equity securities	397,685	220,369
Total	<u>\$ 486,545</u>	<u>\$ 309,432</u>
Permanently Restricted Corporate bonds		
	<u>\$ 7,997</u>	<u>\$ 7,347</u>

Changes in endowment net assets for 2012 and 2011 are as follows:

<u>2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 486,545	\$ -	\$ 7,997	\$ 494,542
Interest and dividend income	12,596	-	600	13,196
Contributions	999	-	-	999
Net appreciation	12,083	-	-	12,083
Endowment net assets, end of year	<u>\$ 512,223</u>	<u>\$ -</u>	<u>\$ 8,597</u>	<u>\$ 520,820</u>

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**Note 6 – Designated Investments (continued)**

**Endowment Funds (continued)**

<u>2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 441,727	\$ -	\$ 7,439	\$ 449,166
Interest and dividend income	11,492	-	558	12,050
Contributions	20,067	-	-	20,067
Net appreciation	13,259	-	-	13,259
Endowment net assets, end of year	<u>\$ 486,545</u>	<u>\$ -</u>	<u>\$ 7,997</u>	<u>\$ 494,542</u>

**Board Designated Fund for Capital Replacement**

Solheim has set aside a reserve for capital replacement, as required by the terms of the 2004 Refunding Revenue Bonds. The reserve commenced with the issuance of the bonds. Solheim is obligated to increase the reserve in future years in accordance with the increases in the consumer price index if its equipment purchases and the repair and maintenance expense of its facilities do not exceed the reserve amount.

Solheim's Board Designated Fund for Capital Replacement as of December 31, 2012, and 2011 are as follows:

<u>2012</u>	<u>Aggregate Fair Value</u>	<u>Cost</u>
Certificate of deposit	<u>\$ 50,181</u>	<u>\$ 50,000</u>
<u>2011</u>	<u>Aggregate Fair Value</u>	<u>Cost</u>
Certificate of deposit	<u>\$ 50,183</u>	<u>\$ 50,000</u>

**Temporarily Restricted Net Assets**

Solheim's temporarily restricted net assets include a money market account with a balance of \$2,364 and \$8,621, as of December 31, 2012 and 2011, respectively.

**SOLHEIM LUTHERAN HOME**  
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**Note 7 – Other-Than-Temporary Impairment of Investments**

The following table shows the gross unrealized losses and fair value of investments and designated investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

	<b>Fair Value Below Cost as of December 31, 2012</b>					
	<b>Less Than 12 Months</b>		<b>Greater Than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
Equity securities	\$ 274,739	\$ (16,288)	\$ 225,575	\$ (62,076)	\$ 500,314	\$ (78,364)
Corporate bonds	-	-	49,986	(18)	49,986	(18)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 274,739</b>	<b>\$ (16,288)</b>	<b>\$ 275,561</b>	<b>\$ (62,094)</b>	<b>\$ 550,300</b>	<b>\$ (78,382)</b>

	<b>Fair Value Below Cost as of December 31, 2011</b>					
	<b>Less Than 12 Months</b>		<b>Greater Than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
Equity securities	\$ 361,301	\$ (76,622)	\$ 80,152	\$ (6,601)	\$ 441,453	\$ (83,223)
Corporate bonds	95,637	(1,542)	-	-	95,637	(1,542)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 456,938</b>	<b>\$ (78,164)</b>	<b>\$ 80,152</b>	<b>\$ (6,601)</b>	<b>\$ 537,090</b>	<b>\$ (84,765)</b>

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other-than-temporary impairment under management's policy. Solheim follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended December 31, 2012 and 2011, no securities were determined to be other-than-temporarily impaired.

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**Note 8 – Fair Value Measurements**

U.S. GAAP establishes the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements).

Following is a description of the valuation methodologies used for assets measured at fair value. The three levels of the fair value hierarchy under U.S. GAAP are described as follows:

- Level 1**            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.
- Level 2**            Inputs to the valuation methodology include
- quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability;
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3**            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at December 31, 2012 and 2011.

*Money Market Accounts and Certificates of Deposit:* valued at fair value by reference to quoted prices in active markets for identical assets or liabilities (unadjusted) that Solheim has the ability to access at the measurement date.

*Equity Securities:* valued at fair value by reference to quoted prices in active markets for identical assets or liabilities (unadjusted) that Solheim has the ability to access at the measurement date.

*Corporate Bonds:* valued at fair value by reference to quoted prices in active markets for identical assets or liabilities (unadjusted) that Solheim has the ability to access at the measurement date.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management 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 fair value measurement at the reporting date.

**SOLHEIM LUTHERAN HOME**  
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**Note 8 – Fair Value Measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2012:

<u>2012</u>	<u>Assets at Fair Value as of December 31, 2012</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Money market accounts and certificates of deposit	\$ 532,107	\$ 532,107	\$ -	\$ -
Equity securities	1,885,715	1,885,715	-	-
Corporate bonds	49,986	49,986	-	-
Cash and Investments Held by Trustee				
Money market accounts and certificates of deposits	836,425	836,425	-	-
	<u>\$ 3,304,233</u>	<u>\$ 3,304,233</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2011:

<u>2011</u>	<u>Assets at Fair Value as of December 31, 2011</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Money market accounts and certificates of deposit	\$ 906,569	\$ 906,569	\$ -	\$ -
Equity securities	1,853,823	1,853,823	-	-
Corporate bonds	95,636	95,636	-	-
Cash and Investments Held by Trustee				
Money market accounts and certificates of deposits	828,514	828,514	-	-
	<u>\$ 3,684,542</u>	<u>\$ 3,684,542</u>	<u>\$ -</u>	<u>\$ -</u>

**SOLHEIM LUTHERAN HOME  
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**Note 9 – Facilities and Equipment**

Facilities and equipment at December 31, 2012, and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,754,892	\$ 1,754,892
Land improvements	834,497	834,497
Buildings and building improvements	10,668,756	10,410,810
Furniture, fixtures and equipment	<u>2,960,907</u>	<u>2,955,827</u>
	16,219,052	15,956,026
Less accumulated depreciation	<u>9,984,491</u>	<u>9,467,656</u>
Total	<u>\$ 6,234,561</u>	<u>\$ 6,488,370</u>

Depreciation expense was \$565,084 and \$563,809 for 2012 and 2011, respectively. Of the 2011 amount, \$15,000 is included in net rental loss in the accompanying statements of activities for 2011. There is no depreciation expense on the rental operation for 2012.

**Note 10 – Deferred Costs Related to Refunding Revenue Bonds**

Certain costs were paid or incurred in order to issue these bonds, such as fees of the financial advisor, rating service, bond counsel, underwriter's discount, and other charges. The unamortized balance of these costs was \$72,551 and \$87,305 at December 31, 2012 and 2011, respectively.

Solheim obtained bond insurance to insure for payment of principal and interest on the bonds. The insurance premium of \$323,940 was prepaid and is expensed over the life of the bond. The prepaid amount was \$116,117 and \$139,733 at December 31, 2012 and December 31, 2011, respectively.

**Note 11 – Deferred Costs Related to Future Expansion**

Solheim has capitalized certain research costs, legal and architectural fees incurred in connection with a future project that will expand the size of the current campus and replace some of the existing buildings in a phased construction process. This project will further Solheim's not-for-profit mission and is consistent with the organization's tax exempt status as it will expand Solheim's ability to serve additional seniors and enhance the quality of life for existing residents. The property is contiguous to the current campus and is located at 2221 Fair Park Avenue. It is currently leased to a third party (Note 18).

**SOLHEIM LUTHERAN HOME**  
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**Note 12 – Long-Term Debt – Refunding Revenue Bonds**

On December 2, 2004, Solheim refinanced the 1994 Certificates of Participation. Through the California Health Facilities Financing Authority, Solheim issued new bonds, the 2004 Refunding Revenue Bonds. The facilities and gross receipts of Solheim serve as security for the bonds. Solheim is required to be in compliance with certain financial covenants. The financial covenants include debt service coverage ratio, current ratio, and days cash on hand ratio. Solheim was in compliance with its financial covenants for the year ended December 31, 2012.

	<b>2012</b>	<b>2011</b>
Note payable to California Health Facilities Financing Authority, bearing interest rates ranging from 1.75% to 3.85% per annum, payable semi-annually on May 1 and November 1 of each year. Principal is payable annually through 2017.	\$ 2,755,000	\$ 3,255,000
Less current portion	515,000	500,000
	<b>\$ 2,240,000</b>	<b>\$ 2,755,000</b>

Debt service requirements at December 31, 2012 are as follows:

<b>Due Date (November 1)</b>	<b>Principal Payments</b>	<b>Interest</b>	<b>Total Debt Service</b>
2013	\$ 515,000	\$ 101,288	\$ 616,288
2014	530,000	83,520	613,520
2015	550,000	64,440	614,440
2016	570,000	44,090	614,090
2017	590,000	22,715	612,715
	<b>\$ 2,755,000</b>	<b>\$ 316,053</b>	<b>\$ 3,071,053</b>

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
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**Note 13 – Other Long-Term Debt**

Other long-term debt at December 31, 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
<p>Note payable to Mission Investment Fund (the "Fund") of the Evangelical Lutheran Church in America paid in monthly installments of \$6,213, including interest at 6.25% per annum until November 1, 2011. Effective December 1, 2011, monthly installments of \$5,607 including interest at 4.625% per annum are required. The interest rate and payment amounts will be reviewed again by the Fund on November 1, 2016, and 2021. The note is secured by certain real estate purchased by Solheim in 2006 and matures on December 1, 2026.</p>	\$ 692,290	\$ 726,631
<p>Less current portion</p>	36,025	34,309
	<b>\$ 656,265</b>	<b>\$ 692,322</b>

Maturities of other long-term debt are as follows:

<b><u>Years Ending December 31,</u></b>	
2013	\$ 36,025
2014	37,722
2015	39,504
2016	41,370
2017	43,255
Thereafter	494,414
	<b>\$ 692,290</b>

**Note 14 – Refundable Entrance Fees**

For the right to become a continuing care resident of Solheim, residents are required to pay an entrance fee, a portion of which may be refundable based on the length of stay in the community. If the resident or Solheim cancels the contract within the first ninety days of occupancy, the entire fee is refundable. If the resident stays more than ninety days, the refundable portion of the fee is prorated on a monthly basis over the first three years of occupancy. Residents not on a continuing care contract pay a higher monthly fee. The amount of entrance fees expected to be refunded to current residents is estimated based on Solheim's historical refund experience and Solheim's refund policy.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
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**Note 14 – Refundable Entrance Fees (continued)**

At December 31, 2012 and 2011, an estimated \$992,000 and \$1,044,000, respectively, was contractually refundable. These amounts represent the amount due to residents, if all were to cancel their contracts as of December 31, 2012 and 2011, respectively, based on Solheim's refund policy. The contractually refundable amount is included in deferred revenue from entrance fees in the accompanying statements of financial position.

**Note 15 – Deferred Revenue – Entrance Fees**

Entrance fees applicable to residents entering the community are being earned over the anticipated life expectancies of these residents. The life expectancies of the continuing care residents used to record revenue earned for accounting purposes are adjusted each year based on the table developed by the state of California. Changes in deferred revenue from entrance fees for the year are summarized as follows for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 2,047,759	\$ 2,156,895
Add: Fees and deposits received or accrued	640,200	653,000
Deduct: Adjustment for change in refundable fees	2,143	(352)
Fees earned from regular amortization	(432,500)	(431,680)
Decrease in deferred revenue applicable to residents expiring or leaving facility	(234,252)	(225,032)
Fees and deposits refunded	(58,307)	(105,072)
Ending Balance	<u>\$ 1,965,043</u>	<u>\$ 2,047,759</u>

**Note 16 – Obligations to Provide Future Services and Use of Facilities to Current Residents**

If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. Solheim's computation has been made which indicated that as of December 31, 2012 and 2011, the estimated amounts received or to be received from current continuing care residents will exceed the estimated costs of providing future services and use of facilities to those residents. Consequently, no liability is shown on the statements of financial position at either date. For the years ended December 31, 2012 and 2011, the discount rate used for this calculation was 3% percent.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
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**Note 17 – Retirement Plan**

Solheim provides a tax deferred annuity plan (“403(b) Plan”) for the benefit of its eligible employees. Solheim's matching contribution to the 403(b) Plan is discretionary and is determined by its Board of Directors. For both 2012 and 2011, the matching percentage was 2%. In addition, employees, at their discretion, may direct a portion of their monthly benefit allowance provided by Solheim, to their 403(b) Plan account. For the years ended December 31, 2012 and 2011, Solheim's contribution was approximately \$467,000 and \$505,000, respectively.

Effective January 1, 2013, Solheim created a 457(b) plan for the benefit of members of the executive team. The 457(b) plan allows Solheim to make discretionary matching and nonelective contributions.

**Note 18 – Commitments and Contingencies**

Solheim leases office equipment under operating lease agreements. The leases have various terms and maturity dates and require monthly lease payments. Lease expense for the year 2012 and 2011 was \$18,346 and \$18,671, respectively.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2013	\$ 12,048
2014	4,201
2015	215
	<u>\$ 16,464</u>

On November 13, 2006, Solheim acquired an adjacent property for investment and future expansion. Concurrently with the purchase, Solheim entered into month-to-month lease agreement with the tenant of the property. The lease agreement calls for rental payments of \$1,500 per month.

Results of Rental Operation – In connection with the rental operation, Solheim allocated certain expenses against the rental income. The amounts are as follows:

	<u>2012</u>	<u>2011</u>
Rental income	\$ 18,000	\$ 18,000
Rental expenses		
Interest	32,795	44,284
Insurance	762	769
Property tax	28,282	28,013
Depreciation	-	15,000
Total rental expenses	61,839	88,066
Rental loss - net	\$ (43,839)	\$ (70,066)

**SOLHEIM LUTHERAN HOME**  
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**Note 18 – Commitments and Contingencies (continued)**

Solheim is also subject to certain outside claims, arising in the normal course of business. In the opinion of management and legal counsel, the outcome of such matters will not have a material effect on the accompanying financial statements.

**Note 19 – Concentrations**

Solheim maintains its unrestricted cash deposits with a financial institution and a brokerage firm. The deposits with the financial institution are insured up to \$250,000 with the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2012, Solheim's uninsured cash balance totaled approximately \$193,000.

Approximately 21% and 17% of Solheim's total operating revenue for the years ended December 31, 2012, and 2011, respectively, were funded pursuant to federal, state, and local assistance programs, the continuation of which is dependent upon government policies. Revenues received under these programs are partially based upon cost reimbursement principles that are subject to government audit.

**Note 20 – Functional Expenses**

Solheim provides residential and nursing center services to its residents. Expenses related to providing these services for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Program services	\$ 9,678,651	\$ 9,335,080
General and administrative	1,622,720	1,569,133
Fundraising	144,692	140,556
	<u>\$ 11,446,063</u>	<u>\$ 11,044,769</u>

**Note 21 – Subsequent Events**

Management has evaluated for subsequent events through April 24, 2013, the issuance date of the financial statements. As disclosed in Note 17, Solheim created a 457(b) retirement plan with an effective date of January 1, 2013.

**SOLHEIM LUTHERAN HOME**  
**SCHEDULE OF DIRECT COSTS BY COST CENTER**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	Skilled Nursing	Residential, Assisted Living, Memory Care	Maintenance	Housekeeping	Laundry	Dietary	Social Services	Activities	In-service Education	Administration	Ancillary Services and Parish Nurse Program	Total 2012	Total 2011
Salaries	\$ 1,770,327	\$ 1,200,454	\$ 259,666	\$ 138,575	\$ 126,430	\$ 632,704	\$ 41,193	\$ 375,976	\$ 60,452	\$ 831,223	\$ 27,863	\$ 5,464,863	\$ 5,554,931
Vacation, holiday and benefits	206,171	153,287	29,326	12,596	14,889	71,454	4,962	40,996	5,146	82,386	672	621,885	561,506
Insurance-group medical and life	176,628	149,112	31,482	13,229	12,843	86,103	215	32,614	6,058	38,518	-	546,802	565,734
Payroll taxes	153,539	99,775	22,197	14,539	17,351	59,435	3,466	26,465	5,003	75,639	2,183	479,592	460,472
Retirement plan	136,432	114,691	23,121	13,514	10,737	51,667	6,893	57,290	897	52,098	-	467,340	504,634
Supplies and replacements	80,294	73,649	41,107	59,841	25,287	72,327	5,040	7,307	-	30,533	-	395,385	366,167
Food purchases	-	-	-	-	-	393,114	-	-	-	-	-	393,114	390,109
Workers' compensation insurance	90,120	102,491	13,221	9,592	7,027	33,629	2,064	24,573	3,002	3,203	1,322	290,244	233,402
Utilities	-	-	282,558	-	-	-	-	-	-	-	-	282,558	271,118
Medical supplies and services	32,883	10,685	-	-	-	-	-	-	-	-	231,691	275,259	181,281
Therapy	-	-	-	-	-	-	-	-	-	-	249,781	249,781	97,408
Insurance-other	-	-	-	-	-	-	-	-	-	-	-	-	240,790
Professional services	9,839	-	-	-	-	10,746	-	10,746	-	234,636	-	245,382	168,608
Maintenance-general	-	-	-	-	-	4,521	-	4,521	-	163,477	-	203,740	168,608
Outside services	-	-	161,993	-	-	-	-	-	-	-	-	161,993	146,669
Maintenance-contractual	-	-	-	-	-	-	-	-	-	104,447	-	104,447	97,269
Other direct expenses	21,756	-	91,375	-	4,677	4,328	-	-	-	-	-	96,052	100,442
Development cost	-	-	27	-	227	-	-	-	-	41,141	-	70,519	50,946
Dues and fees	-	-	-	-	-	220	-	1,136	-	65,377	-	65,377	63,685
Provision for doubtful accounts	-	-	-	-	-	-	-	-	-	58,071	-	59,427	55,863
Advertising and promotion	-	-	-	-	-	-	-	-	-	53,727	-	53,727	(33,112)
Residents' expense	-	-	-	-	-	-	-	-	-	47,776	-	47,776	63,924
Barber and beauty shop	-	-	-	-	-	-	-	10,783	-	-	34,896	45,679	50,975
Telephone	-	-	-	-	-	-	-	-	-	-	41,058	41,058	44,639
Travel	-	-	19	-	-	5	-	-	-	12,355	-	20,645	20,645
Resident transportation expenses	-	-	-	-	-	-	-	1,820	-	7,067	-	11,926	15,954
Education and training	674	-	531	-	-	-	-	11,536	1,414	3,848	-	11,536	11,585
Postage	-	-	-	-	-	-	-	960	-	6,951	-	7,427	10,099
Publicity and public relations	-	-	-	-	-	-	-	-	-	6,684	-	6,951	7,139
Reimbursement from LHMF	-	-	-	-	-	-	-	-	-	-	(35,056)	(35,056)	15,191
	\$ 2,678,663	\$ 1,904,144	\$ 956,563	\$ 261,886	\$ 219,468	\$ 1,430,889	\$ 63,833	\$ 609,763	\$ 81,972	\$ 1,919,157	\$ 557,425	\$ 10,683,763	\$ 10,283,065
2012 Total Direct Costs													
2011 Total Direct Costs	\$ 2,553,987	\$ 1,928,567	\$ 920,514	\$ 278,173	\$ 200,900	\$ 1,448,917	\$ 58,920	\$ 625,569	\$ 79,773	\$ 1,852,902	\$ 334,843	\$ 10,283,065	\$ 10,283,065

See independent auditor's report.