Salem Lutheran Home
An Elder Care Alliance Community

October 17, 2013

State of California, Health & Human Services Agency
Department of Social Services
Community Care Licensing Division
Statewide Adult & Senior Care Program Office
744 P Street, MS 8-3-90
Sacramento, CA 95814

To Whom It May Concern:

I, Jesse Jantzen, Chief Executive Officer of Salem Lutheran Home, certify that the enclosed continuing care reserve report is correct to the best of my knowledge;

1) that the annual reserve reports and amendments are fairly stated;
2) that each continuing care contract form in use for new residents has been approved by the Department of Social Services;
3) that Salem Lutheran Home maintains the required reserves for prepaid continuing care contracts, statutory reserves, and refund reserves as of the date of this letter.

Sincerely,

Jesse Jantzen
Chief Executive officer

SALEM LUTHERAN HOME
an ELDER CARE ALLIANCE community

October 28, 2013

State of California
Department of Social Services
Community Care Licensing Division
Continuing Care Contracts Branch
744 P Street, M.S. 10-90
Sacramento, CA 95814

Ladies and Gentlemen,

Re: Salem Lutheran Home CCRC Annual Report

Please find enclosed the requested 3 copies of the CCRC Annual Report and the Disclosure Statement for Salem Lutheran Home for the year ending June 30, 2013.

Also enclosed is the check for the annual fee of $1,196.

Sincerely,

Janice Washburn
Controller
510-769-2727

FISCAL YEAR ENDED:
06 / 30 / 13

ANNUAL REPORT CHECKLIST

PROVIDER(S): The Salem Lutheran Home Association of the Bay Cities, Inc.

CCRC(S): The Salem Lutheran Home Association of the Bay Cities, Inc.

CONTACT PERSON: Janice Washburn

TELEPHONE NO.: (510) 769-2727 EMAIL: jwashburn@eldercarealliance.org

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

- ☑ Annual Report Checklist.
- ☑ Annual Provider Fee in the amount of: $ 1,196
  - ☐ If applicable, late fee in the amount of: $__________
- ☑ Certification by the provider's *Chief Executive Officer* that:
  - ☑ The reports are correct to the best of his/her knowledge.
  - ☑ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ☑ The provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.
- ☑ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- ☑ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ☑ Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for *each* community.
- ☐ Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

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

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 10/02/2013

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

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

PRODUCER
MARSH RISK & INSURANCE SERVICES
345 CALIFORNIA STREET, SUITE 1300
CALIFORNIA LICENSE NO. 0437153
SAN FRANCISCO, CA 94104
Attn: SanFrancisco.Certs@marsh.com
742600-CRIME-ALWC-13-14

CONTACT NAME:
PHONE (A/C, No, Ext): FAX (A/C, No):
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A :	N/A	N/A
INSURER B :	Federal Insurance Company	20281
INSURER C :		
INSURER D :		
INSURER E :		
INSURER F :		

INSURED
The Salem Lutheran Home Association
2361 E. 29th Street
Oakland, CA 94606

COVERAGES **CERTIFICATE NUMBER:** SEA-002330809-04 **REVISION NUMBER:** 13

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	
	GENERAL LIABILITY COMMERCIAL GENERAL LIABILITY CLAIMS-MADE OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: POLICY PRO-JECT LOC						EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurrence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG	\$ \$ \$ \$ \$ \$ \$
	AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS HIRED AUTOS NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident)	\$ \$ \$ \$ \$
	UMBRELLA LIAB OCCUR EXCESS LIAB CLAIMS-MADE DED RETENTION \$						EACH OCCURRENCE AGGREGATE	\$ \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT	 \$ \$ \$
B	Crime			8235-1633	06/30/2013	06/30/2014	Limit SIR	3,000,000 25,000

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

CERTIFICATE HOLDER

State of California
Health & Human Services Agency
Department of Social Services
744 P. Street
Sacramento, CA 95814

CANCELLATION

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

AUTHORIZED REPRESENTATIVE
of Marsh Risk & Insurance Services
Deborah Forde

Deborah Forde

Elder Care Alliance and Subordinate Corporations

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Elder Care Alliance and Subordinate Corporations
June 30, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

910 E. St. Louis Street, Suite 200
P.O. Box 1190
Springfield, MO 65801-1190
417.865.8701 Fax 417.865.0682 www.bkd.com

Independent Auditor's Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying consolidated financial statements of Elder Care Alliance and Subordinate Corporations (ECA), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elder Care Alliance and Subordinate Corporations as of June 30, 2013 and 2012, and the results of their operations, the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Springfield, Missouri
October 25, 2013

Elder Care Alliance and Subordinate Corporations

Consolidated Statements of Financial Position

June 30, 2013 and 2012

(In Thousands)

Assets

	2013	2012
Current Assets		
Cash	$ 7,783	$ 3,403
Patient and resident accounts receivable, net of allowance; 2013 - $346, 2012 - $180	1,559	1,846
Assets limited as to use - current	642	635
Prepaid expenses and other	801	900
Other receivables	9,622	122
Total current assets	20,407	6,906
Investments and Interest in Investment Pool	20,081	18,758
Assets Limited As To Use		
Internally designated	256	-
Under indenture agreement, held by trustee		
Debt service reserve	919	1,110
Held by mortgagee under loan agreement with HUD		
Reserve for replacements	543	410
Escrow deposits	625	1,664
Externally restricted by donor - cash	678	678
Total assets limited as to use	3,021	3,862
Property and Equipment, Net	84,637	87,489
Deferred Financing Costs and Other	3,351	4,164
Total assets	$ 131,497	$ 121,179

Liabilities and Net Assets

	2013	2012
Current Liabilities		
Current maturities of long-term debt	$ 4,041	$ 2,692
Accounts payable	967	1,802
Accrued expenses and other	4,048	3,750
Total current liabilities	9,056	8,244
Long-Term Debt	117,038	120,077
Asset Retirement Obligations	982	926
Deferred Revenue - Unearned Entrance Fees	341	451
Total liabilities	127,417	129,698
Net Assets		
Unrestricted	(3,945)	(16,054)
Temporarily restricted	4,378	3,888
Permanently restricted	3,647	3,647
Total net assets	4,080	(8,519)
Total liabilities and net assets	$ 131,497	$ 121,179

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Net patient and resident service revenue	$ 54,953	$ -	$ -	$ 54,953
Contributions	10,696	477	-	11,173
Other revenue, net	589	-	-	589
Net assets released from restrictions for				
Operations	291	(291)	-	-
Charity	420	(420)	-	-
Total revenues, gains and other support	66,949	(234)	-	66,715
Expenses and Losses				
Salaries and benefits	29,346	-	-	29,346
Purchased services and other	11,050	-	-	11,050
Supplies	3,927	-	-	3,927
Depreciation, amortization and other	4,603	-	-	4,603
Interest and fees	4,991	-	-	4,991
Provision for uncollectible accounts	177	-	-	177
Loss on disposal of property and equipment	-	-	-	-
Total expenses and losses	54,094	-	-	54,094
Operating Income (Loss)	12,855	(234)	-	12,621
Other Income (Expense)				
Interest and dividend income	105	14	-	119
Net realized and unrealized gain on interest rate swap agreements	-	-	-	-
Gains (losses) from investment pool	833	727	-	1,560
Loss on extinguishments of debt	(1,612)	-	-	(1,612)
Excess (Deficiency) of Revenues Over Expenses	12,181	507	-	12,688
Net assets released for purchase of property and equipment	21	(21)	-	-
Investment return - net change in unrealized gains (losses) on investments	(93)	4	-	(89)
Increase (Decrease) in Net Assets	12,109	490	-	12,599
Net Assets, Beginning of the Year	(16,054)	3,888	3,647	(8,519)
Net Assets, End of the Year	$ (3,945)	$ 4,378	$ 3,647	$ 4,080

See Notes to Consolidated Financial Statements

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 52,451	$ -	$ -	$ 52,451
1,624	461	3	2,088
518	-	-	518
217	(217)	-	-
272	(272)	-	-
55,082	(28)	3	55,057
28,527	-	-	28,527
11,505	-	-	11,505
3,912	-	-	3,912
4,158	-	-	4,158
5,202	-	-	5,202
144	-	-	144
42	-	-	42
53,490	-	-	53,490
1,592	(28)	3	1,567
233	(3)	-	230
73	-	-	73
(6)	(102)	-	(108)
(1,941)	-	-	(1,941)
(49)	(133)	3	(179)
21	(21)	-	-
(65)	(43)	-	(108)
(93)	(197)	3	(287)
(15,961)	4,085	3,644	(8,232)
$ (16,054)	$ 3,888	$ 3,647	$ (8,519)

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
Operating Activities		
Change in net assets	$ 12,599	$ (287)
Items not requiring (providing) operating cash flows		
Loss on extinguishments of debt	1,612	1,941
Loss on disposal of property and equipment	-	42
Depreciation and other	4,224	3,950
Amortization of deferred financing costs	323	158
Amortization of earned entrance fees	(110)	(268)
Accretion of asset retirement obligations	56	52
Provision for uncollectible accounts	177	144
Realized and unrealized (gains) losses on investments and investment pool, net	(1,316)	373
Change in fair value of interest rate swap agreements	-	(400)
Restricted contributions and investment income	(1,218)	(356)
Changes in		
Patient and resident accounts receivable	110	(300)
Prepaid expenses and other assets	93	(528)
Other receivables	(9,500)	7
Accounts payable	(592)	432
Accrued liabilities and other long-term liabilities	298	491
Net cash provided by operating activities	6,756	5,451
Investing Activities		
Purchases of investments, investment pool and assets limited as to use	(2,942)	(5,027)
Sales of investments, investment pool and assets limited as to use	3,742	5,183
Proceeds from sale of property and equipment	-	9
Purchases of property and equipment	(1,614)	(10,227)
Net cash used in investing activities	(814)	(10,062)
Financing Activities		
Proceeds from issuance of long-term debt	32,979	62,197
Proceeds from restricted contributions and investment income	1,218	356
Principal payments of long-term debt	(34,670)	(58,302)
Payment of deferred financing costs and prepayment penalty	(833)	(1,466)
Payment for termination of swap agreement	-	(1,096)
Net cash provided by (used in) financing activities	(1,306)	1,689

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013		2012	
Increase (Decrease) in Cash	$	4,636	$	(2,922)
Cash, Beginning of Year		4,081		7,003
Cash, End of Year	$	8,717	$	4,081
Reconciliation of Cash				
to Statements of Financial Position				
Cash	$	7,783	$	3,403
Cash in assets limited as to use				
Internally designated		256		-
Restricted		678		678
Total cash	$	8,717	$	4,081
Supplemental Cash Flows Information				
Interest paid	$	5,026	$	4,794
Property and equipment acquisitions included in accounts payable	$	72	$	315

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Elder Care Alliance (ECA-Corporate) is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Sisters of Mercy of the Americas – West Midwest Communities (the "Sisters of Mercy").

ECA-Corporate was established with the support and leadership of Dignity Health, formerly known as Catholic Healthcare West (CHW). The shared vision of Dignity Health, ECA-Corporate and its cosponsors, the Lutheran Synod and the Sisters of Mercy, was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of the burgeoning population of elderly people who seek support and assistance with activities of daily living in a noninstitutional environment.

On May 15, 1997, two separate nonprofit corporations, Mercy Retirement and Care Center (MRCC) and Salem Lutheran Home Association of the Bay Cities, Inc. (SLH), entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of both MRCC and SLH. ECA-Corporate provides supportive housing, skilled nursing, rehabilitation and social services principally to the aged through these subordinate corporations. MRCC and SLH retain their individual identities, assets and liabilities and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

MRCC is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 106 units licensed as residential care, including a 22-unit dementia care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life. Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

SLH is a California nonprofit public benefit corporation organized for the purpose of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 134 units licensed as residential care, including a 30-unit dementia care facility and 48 units licensed as skilled nursing. SLH offers a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of SLH for life. Residents are also entitled to certain healthcare services provided in the SLH assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in SLH. SLH generates its revenues primarily from residential care and skilled nursing fees.

The following entities are California nonprofit public benefit corporations organized for the purpose of developing residential care facilities for the elderly (RCFEs) to provide residences and assistance with daily living needs for elderly persons and generate its revenues primarily from residential care fees.

They are subordinate corporations to ECA-Corporate and operate under a common management team through ECA-Corporate:

Elder Care Alliance of Camarillo (AVC) doing business under the name of "AlmaVia of Camarillo" operates an 85-unit RCFE with 25-units designated for dementia care in Camarillo, California.

Elder Care Alliance of San Francisco (AVSF) doing business under the name of "AlmaVia of San Francisco" operates a 135-unit RCFE with 41-units designated for dementia care in San Francisco, California.

Elder Care Alliance of Union City (AVUC) doing business under the name "AlmaVia Assisted Living" operates a 95-unit RCFE with 24-units designated for dementia care in Union City, California.

Elder Care Alliance of San Rafael (AVSR) doing business under the name "AlmaVia of San Rafael" operates a 137-unit RCFE with 22-units designated for dementia care in San Rafael, California.

Hereinafter, ECA-Corporate and its subordinate corporations are referred to collectively as "ECA."

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ECA-Corporate and its subordinate corporations, MRCC, SLH, AVC, AVSF, AVUC and AVSR. All significant transactions and accounts between the entities have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2013, ECA's cash accounts exceeded federally insured limits by approximately $7,418.

Investments, Interest In Investment Pool and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value and are classified as "available for sale" securities. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in investment pools are carried at fair value pursuant to the fair value option provisions of ASC Topic 825. ECA's interest in investment pools represents funds it has invested in Dignity Health-managed investment pools. ECA may deposit or withdraw funds in the pools at its discretion; however, withdrawals require advance notice. Earnings (including distributions and increases or decreases in the value of ECA's share of the pool) are included in gains (losses) from investment pool.

Assets Limited As To Use

Assets limited as to use include (1) assets internally designated by the Board of Directors for payment of workers' compensation claims, over which the Board retains control and may at its discretion subsequently use for other purposes (2) assets held by trustees under a bond indenture agreement (3) assets held in escrow for payment of property taxes and insurance, occupancy stabilization, debt service and reserves for replacements pursuant to the loan agreement with HUD (4) assets restricted by donors. Amounts required to meet current liabilities of ECA are included in current assets.

Patient and Resident Accounts Receivable

As part of its mission to serve the community, ECA provides care to residents even though they may participate in programs that do not pay full charges, or they may lack adequate insurance or private means. ECA manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are stated at net realizable value from third-party payers, residents and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5-25 years
Buildings and improvements	5-50 years
Furniture and equipment	3-15 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

ECA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2013 and 2012.

Deferred Financing Costs

Deferred financing costs represent bond and long-term debt issuance costs which are amortized on the straight-line method over the term of the respective debt agreements.

Deferred Revenue - Unearned Entrance Fees

Entrance fees received by SLH for continuing care residency are deferred and recognized as revenue over the life expectancy of the resident. MRCC does not have any residents with continuing care contracts as of June 30, 2013 or 2012, respectively. Refunds may be made up to two years for certain fees after the date of occupancy. A separate refund liability has not been established as the amount is deemed immaterial based upon experience.

Obligation to Provide Future Services

SLH provides services primarily on a fee-for-service basis. SLH fees are not limited to stated or cost-of-living increases. SLH sets resident rates to fully absorb its ongoing operating costs. Accordingly the accompanying financial statements do not reflect a liability to provide future services and the use of facilities at June 30, 2013 and 2012.

Net Assets

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ECA and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Certain net assets have been designated by the Board for specific use in future periods. In addition, MRCC has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of property, plant and equipment or for repayment of long-term debt. The funds may be redesignated for other uses as appropriate.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those whose use by ECA has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets – Permanently restricted net assets have been restricted by donors to be maintained by ECA in perpetuity. Generally, the donors of these assets permit ECA to use all or part of the income earned on related investments for general or specific purposes.

Net Patient and Resident Service Revenue and Monthly Fees

ECA has agreements with third-party payers that provide for payments to ECA at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges and per diem payments. Net revenues from Medicare and Medi-Cal programs were approximately $4,503 and $2,443, respectively, for the year ended June 30, 2013, and approximately $4,252 and $2,042, respectively, for the year ended June 30, 2012. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable Care

ECA provides charitable care to residents who are unable to pay for services or monthly service fees. The amount of charitable care is included in net revenue.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

During the year ended June 30, 2013, MRCC was named the beneficiary of a $9,500 estate comprised of cash, investments and property. MRCC has $9,500 included in unrestricted contributions in the statements of activities. As of June 30, 2013, the estate had not been received and a receivable of $9,500 is included in other receivables in the statements of financial position.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. As of June 30, 2013 and 2012, there was $982 and $926, respectively, of conditional asset retirement obligations included in the statements of financial position. Accretion expense totaled $56 and $52 for the years ended June 30, 2013 and 2012, respectively.

(In Thousands)

Excess (Deficiency) of Revenues Over Expenses

The statements of activities include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Professional Liability Claims

ECA recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 11*.

Income Taxes

ECA-Corporate and its subordinate corporations are each exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the state in which they operate. However, ECA is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Concentration of Credit Risk

ECA grants credit without collateral to its patients and residents. The mix of receivables from patients, residents and third-party payers at June 30, 2013 and 2012, is:

	2013	2012
Medicare	26%	51%
Medi-Cal	23%	14%
Other third-party payers	17%	13%
Patient and residents	34%	22%
	100%	100%

(In Thousands)

Financial instruments which could potentially subject ECA to significant concentrations of credit risk consist primarily of interest rate swap agreements (see *Note 6*) and investments in marketable securities. ECA, primarily through external money managers, has significant investments in marketable securities which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Note 3: Investments and Investment Return

Composition of investments, interest in investment pool and assets limited as to use at June 30, 2013 and 2012, are summarized in the following table:

	2013 Amortized Cost	2013 Unrealized Gain (Loss)	2013 Fair Value	2012 Amortized Cost	2012 Unrealized Gain (Loss)	2012 Fair Value
Interest in investment pool	$ 12,634	$ 953	$ 13,587	$ 11,061	$ 131	$ 11,192
Fixed income securities						
U.S. Treasury securities	332	(2)	330	331	3	334
Government guaranteed bonds	-	-	-	156	-	156
U.S. agencies	1,205	(7)	1,198	2,098	22	2,120
U.S. government Remics/CMOs	182	1	183	363	2	365
Corporate debt securities	1,483	(8)	1,475	1,624	11	1,635
Foreign bonds	523	(7)	516	411	1	412
Municipal bonds	351	-	351	480	18	498
Equity securities	-	-	-	4	-	4
Cash and cash equivalents						
Money market mutual funds	1,814	17	1,831	2,081	30	2,111
Cash	934	-	934	679	-	679
Other investments	152	4	156	185	-	185
Certificates of deposit	2,015	-	2,015	1,490	-	1,490
Deposits held by mortgagee under loan agreement with HUD	1,168	-	1,168	2,074	-	2,074
	$ 22,793	$ 951	$ 23,744	$ 23,037	$ 218	$ 23,255

(In Thousands)

These investments are included on the statements of financial position as follows:

	2013	2012
Assets limited as to use - current	$ 642	$ 635
Investments and interest in investment pool	20,081	18,758
Assets limited as to use, internally designated	256	-
Assets limited as to use, under indenture agreement held by trustee		
Debt service reserve	919	1,110
Assets limited as to use, deposits held by mortgagee under loan agreement with HUD		
Reserve for replacements	543	410
Escrow deposits	625	1,664
Assets limited as to use, externally restricted by donor	678	678
	$ 23,744	$ 23,255

Interest in investment pools is reported at fair value with changes in fair value reflected in excess (deficiency) of revenues over expenses in the consolidated statements of activities, see *Note 17*.

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income	$ 119	$ 230
Gains (losses) from investment pool		
Realized gains	583	766
Unrealized gains (losses)	822	(1,031)
Interest and dividend income	155	157
Change in unrealized losses	(89)	(108)
	$ 1,590	$ 14

(In Thousands)

Total investment return is reflected in the consolidated statements of activities as follows:

	2013	2012
Unrestricted net assets		
Interest and dividend income	$ 105	$ 233
Gains (losses) from investment pool	833	(6)
Investment return - net change in unrealized losses on investments	(93)	(65)
Temporarily restricted net assets		
Interest and dividend income	14	(3)
Gains (losses) from investment pool	727	(102)
Investment return - net change in unrealized gains (losses) on investments	4	(43)
	$ 1,590	$ 14

Alternative Investments

Except as described below, the fair value of the interest in investment pools considered alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

June 30, 2013	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	$ 4,318	$ -	Semimonthly	Prenotification of 7 days
Dignity Health philanthropic asset management fund of funds (B)	$ 9,269	$ -	Semimonthly	Prenotification of 7 days

June 30, 2012	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	$ 3,830	$ -	Semimonthly	Prenotification of 7 days
Dignity Health philanthropic asset management fund of funds (B)	$ 7,362	$ -	Semimonthly	Prenotification of 7 days

(In Thousands)

(A) This fund seeks to generate a real rate of return of 4.0% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 40% to 60%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small-cap securities and international equity securities. The fixed income securities are allocated between various domestic fixed income securities. The fund also includes a small amount of private equity, real estate and hedge fund of funds investments.

(B) This fund seeks to generate a real rate of return of 5.5% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 60% to 40%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small-cap securities and international equity securities. The fixed income securities are allocated between various domestic fixed income securities.

Note 4: Property and Equipment

Property and equipment consist of the following at June 30:

	2013	2012
Land	$ 4,772	$ 4,772
Land lease	10,898	10,898
Land improvements	4,203	4,188
Buildings and leasehold improvements, building improvements and building service equipment	99,537	98,467
Equipment	13,553	12,796
Construction in progress	654	1,155
	133,617	132,276
Less accumulated depreciation	48,980	44,787
	$ 84,637	$ 87,489

Land lease includes a capitalized land lease of approximately $4.1 million for AVSF for the first 30 years' base rent prepaid as required by the ground lease agreement with the Roman Catholic Archbishop of San Francisco as more fully described in *Note 12*. The land lease was amended on October 1, 2011, due to HUD refinancing. The lease now expires March 2075 and has no options to extend the term of the lease. The amendment required AVSF to prepay approximately $4,005 for an additional 43 years' base rent. The land lease will be amortized over the remaining lease term using the straight-line method. The land lease has accumulated amortization of $1,421 and $1,343 at June 30, 2013 and 2012, respectively, and a net land lease balance of $6,676 and $6,754 at June 30, 2013 and 2012, respectively.

Land lease also includes property of $1,150 purchased by AVUC from the Community Redevelopment Agency of the City of Union City (the "Agency") in the amount of one dollar for the purpose of constructing the AVUC facility. This transaction is accounted for as a contribution in the accompanying financial statements as described in *Note 7*. Based on the Agency Agreement, the Agency has the option to repurchase the property from AVUC for one dollar during the option period which begins approximately 55 years after completion of the AVUC facility and expires after one year. The land lease is being amortized ratably over the 55 years resulting in accumulated amortization of $168 and $147 at June 30, 2013 and 2012, respectively, and a net land lease balance at June 30, 2013 and 2012, of $982 and $1,003, respectively.

Land lease also includes property that was purchased by AVSR from the Lutheran Synod in the form of a promissory note for $1,650 for the purpose of constructing the AVSR facility. The promissory note with the Lutheran Synod was paid in full through financing obtained in March 2010 (see *Note 5*). The existing ground lease with the Lutheran Synod was amended due to the refinancing of the bonds. The original land lease gave the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the AVSR bonds, not to exceed 60 years. Therefore, the land lease was being amortized ratably over 40 years. The amended ground lease gives the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the HUD insured loan, not to exceed 60 years. The land lease is now being amortized ratably over 45 years resulting in accumulated amortization of $278 and $241 at June 30, 2013 and 2012, respectively, and a net land lease balance at June 30, 2013 and 2012, of $1,372 and $1,409, respectively.

At June 30, 2013, ECA's construction in progress balance of $654 is primarily due to refurbishing certain areas of its facility. The projects currently in progress are expected to be completed in the next fiscal year with no significant additional costs to complete.

As described in *Note 5*, portions of the above property and equipment are pledged as collateral on ECA's long-term debt.

(In Thousands)

Note 5: Long-Term Debt

	2013	2012
ECA-Corporate line-of-credit payable (A)	$ 12,530	$ 13,021
ECA-Corporate note payable (B)	4,000	4,000
ECA-Corporate note payable (C)	2,000	2,000
ECA-Corporate note payable (D)	-	500
SLH note payable (E)	4,142	4,360
AVC promissory note payable (F)	12,212	12,416
AVSF promissory note (G)	37,599	38,165
AVUC Series 2004 revenue bonds (H)	14,150	14,485
AVUC agency loan (I)	1,300	1,300
AVUC debt relief agreement (J)	539	437
AVSR promissory note payable (K)	32,607	32,085
	121,079	122,769
Less current maturities	4,041	2,692
	$ 117,038	$ 120,077

(A) ECA-Corporate – Line of credit payable to Dignity Health under which ECA can borrow up to $13,500, interest payments due monthly at one-half of the Dignity Health blended internal rate for funds (2.95% at June 30, 2013), principal due monthly, collateralized by real property and gross revenues. Pursuant to the agreement, ECA must comply with the covenants of the existing credit enhancement agreement with Dignity Health as described below.

(B) ECA-Corporate entered into a $4,000 note payable with a financial institution in October 2011 to prepay rent for the AVSF ground lease (see *Note 12*) which was amended due to AVSF's refinancing discussed below. The note bears variable interest based on LIBOR plus 2.50%, the interest rate at June 30, 2013, was 2.75%. The note has monthly interest only payments commencing November 1, 2011, principal payments commence on November 1, 2013, in monthly installments of $18.5 with interest. The entire balance of the note payable is due in October 2016. The note payable is guaranteed by Dignity Health.

(C) ECA-Corporate entered into a $2,000 note payable with a financial institution in March 2012 to purchase the land for AVC (see *Note 12*). The note allows ECA-Corporate to select the interest rate from three separate options. Based upon ECA-Corporate's interest election, the note bears interest at the greater of 2.5% or the LIBOR interest rate plus 2.0%. At June 30, 2013, the interest rate was 2.50%. The note has monthly interest payments through March 2013, monthly principal payments of approximately $9 plus interest due starting in April 2014, with the entire balance of principal and interest due on March 1, 2019. The note is secured by $1,240 of investments held by ECA-Corporate and $1,000 of investments held by MRCC.

(D) ECA-Corporate entered into a $500 note payable with a financial institution in March 2012, bearing interest at the greater of 2.5% or prime plus 1%, interest accrued on this note is payable monthly, and all outstanding principal was due on December 1, 2012. The note was secured by ECA assets. In November 2012, the note was paid in full.

(E) SLH entered into a $4,360 note payable with a financial institution in June 2012. The note allows SLH to select the interest rate from three separate options. Based upon SLH's interest election, the note bears interest at the greater of 3% or the LIBOR interest rate plus 2.75%. At June 30, 2013, the interest rate was 3.0%. The note has monthly principal payments of $18 plus interest, with the entire balance of principal and interest due on July 1, 2017. The note is secured by a first deed of trust on certain properties of ECA.

(F) AVC - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $12,416. The mortgage matures in June 2047, payable in monthly installments of $48 including interest at 3.0%, secured by a first lien on the AVC property. Under the terms of the note, AVC is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

(G) AVSF - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $38,485. The mortgage matures in November 2046, payable in monthly installments of $162 including interest at 3.65%, secured by a first lien on the AVSF property. Under the terms of the note, AVSF is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. The lender required a one-year debt service escrow reserve to be maintained that is equal to six months principal and interest. This escrow deposit was refunded in December 2012. In addition, the lender required a five-year debt service escrow which is covered by an irrevocable standby letter of credit with a financial institutional in the amount of $975 which is subject to automatic annual extensions with a final expiration of October 31, 2016. The lender requires the debt service escrows to continue to be maintained until minimum debt service coverage ratios are met. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

(H) AVUC – Insured Revenue Bonds Series 2004 issued by the ABAG Finance Authority for Nonprofit Corporations and BNY Western Trust Company as the trustee, in the original amount of $15,685, bearing interest of 4.125% to 5.6%, mandatory annual sinking fund payments beginning August 15, 2008, final maturity August 2034, insured by the Office of Statewide Health Planning and Development of the State of California (the "Office"). The insured bonds are subject to optional, special and mandatory redemption and secured by the real property of AVUC. In February 2011, AVUC, ECA-Corporate and the Office entered into a Debt Service Relief Agreement related to the AVUC 2004 bond issue, see (J) below.

(I) AVUC – Pursuant to the First Amended and Restated Disposition, Development and Loan Agreement (Agency Agreement) between AVUC and the Community Redevelopment Agency of the City of Union City (the "Agency") and in conjunction with the issuance of the Cal-Mortgage Insured Revenue Bonds Series 2004 (the "Bonds"), the Agency agreed to lend (using the proceeds it received from the California Housing Finance Agency) $1,300 to AVUC to pay a portion of the costs of constructing a residential assisted living and dementia care facility in Union City. The proceeds of the loan were deposited with the Bonds Trustee and were disbursed pursuant to the agreement for the Bonds. The loan bears no interest. AVUC is required to maintain a Surplus Funds Account to be held and administered by the Bonds Trustee. After the end of each calendar quarter, AVUC will deposit all available cash, if any, in excess of amounts necessary, during the next succeeding quarter, to fund the debt service on the Bonds, normal operating expenses, and any additional reserves required by the Bonds. Subject to the Agency's remedies in case of a default, the loan is repayable exclusively from the funds deposited in the Surplus Funds Account. As of June 30, 2013 and 2012, no amounts have been deposited in the Surplus Funds Account. If AVUC has insufficient funds available in its Surplus Funds Account on the payment date in 2014 to make the full payment, any shortfall in such payment shall be forgiven by the Agency.

(J) AVUC - In February 2011, AVUC, ECA-Corporate and the Office entered into a Debt Service Relief Agreement related to the AVUC 2004 bond issue (see (H) above) that became retroactively effective October 1, 2010, terminating in January 2015. The agreement allows ECA-Corporate to fund a portion of the cash shortfalls of AVUC in order to make monthly debt service deposits with the Trustee, and the Office would fund the remaining portion of the debt service requirement. The repayment of amounts advanced to AVUC by ECA-Corporate and the Office, including management fees, will only commence at such time as AVUC meets required liquidity ratios. Funds disbursed by the Office to meet debt service requirements, will accumulate interest at a variable rate set by the Office semiannually, and will accrue from the date of the disbursement until the balance is paid in full. The interest rate at June 30, 2013, was .37%. Repayment of funds to the Office will commence on January 1, 2015, and will be amortized over seven years. Under this agreement, the full amount of monthly debt service requirements are not being deposited monthly with the Trustee, but rather right before semiannual payments are made, which results in a technical loan default under the Indenture. The indenture only allows the remedy of acceleration by the Trustee with the consent of the Office. The Office waives their right to direct the Trustee to accelerate repayments of the debt as long as the Debt Service Relief Agreement is in place.

(K) AVSR - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of $32,878. The mortgage was payable in monthly installments of $166, including interest at 5% through April 1, 2045, and was secured by a first lien on the AVSR property.

(In Thousands)

The mortgage was refinanced in November 2012 to obtain a lower interest rate with a mortgage payable with a commercial entity insured by HUD under Section 232 of the National Housing Act. A loss on extinguishment of debt of $1,612 was recorded, which was comprised of the deferred financing costs related to the original mortgage and a prepayment penalty. The new mortgage is payable in monthly installments of $144, including interest at 3.6% through April 1, 2045, and is secured by a first lien on the AVSR property. Under the terms of the mortgage, AVSR is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject under the terms of the mortgage to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

ECA-Corporate entered into an irrevocable standby letter of credit in July 2012 for the amount of $525 for their workers' compensation insurance plan. Subsequent to year end, ECA-Corporate renewed the letter of credit through July 2014 and increased the amount to $925 which has been collateralized with additional investments. The letter of credit is collateralized by a certificate of deposit of $525 held in escrow. Interest on the letter of credit is charged at 1.5%. At June 30, 2013, there were no amounts drawn on the letter of credit.

In May 1997, ECA entered into a credit enhancement agreement with Dignity Health, which expired on June 30, 2005. Under the agreement, Dignity Health provided ECA with a guaranty for certain loan agreements entered into by ECA, made loans to ECA and assisted ECA in obtaining financing through third parties. This agreement requires ECA to maintain a defined debt coverage ratio of at least 1.1 and meet other restrictive covenants, the most restrictive of which include limitations on the acquisition and disposition of property and limitations on additional indebtedness. While the agreement has expired, its provisions remain applicable to those loans subject to the credit enhancement agreement, as described above.

The bond indenture agreement of AVUC requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use under bond indenture agreement in the financial statements.

Aggregate annual maturities of long-term debt at June 30, 2013, are:

2014	$	4,041
2015		3,029
2016		3,141
2017		6,398
2018		6,135
Thereafter		98,335
	$	121,079

(In Thousands)

Based on an independent third-party analysis at June 30, 2013 and 2012, the fair value of the fixed rate AVUC bonds was approximately $14,353 and $14,901, respectively. ECA has fixed rate debt on the HUD insured mortgages for AVSR, AVSF and AVC. Based on the borrowing rates currently available to ECA on this type of debt, management estimates the fair value of the debt to be $82,692 and $96,253 at June 30, 2013 and 2012, respectively. Based on the borrowing rates currently available to ECA and the variable nature of the remaining debt, management believes the carrying amount of the remaining long-term debt approximates its fair value.

Note 6: Derivative Financial Instrument

AVSF had an interest swap to manage the interest rate exposure on its 2006 variable rate demand bonds which was terminated in October 2011 due to AVSF's HUD refinancing. AVSF paid $1,096 to settle the swap liability at the termination date. AVSF recorded an unrealized gain of $400 for the year ended June 30, 2012, for the change in the underlying value of the swap prior to termination. AVSF also recorded realized losses in relation to this swap of $(327) for the year ended June 30, 2012.

Note 7: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions and grants at June 30, 2013 and 2012, for the following purposes:

	2013	2012
Equipment and expansion	$ 520	$ 520
Charity and other	3,858	3,368
	$ 4,378	$ 3,888

During the years ended June 30, 2013 and 2012, $732 and $510, respectively, of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care. Temporarily restricted net assets include the fair value of the AVUC land (see *Note 4*) contribution of $1,150. The contribution is being released from restriction ratably over 55 years beginning in fiscal year 2006 resulting in a release of $21 for each year. The remaining restricted balance of this contribution is $982 and $1,003 at June 30, 2013 and 2012, respectively.

Permanently restricted net assets consist of endowments that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people.

(In Thousands)

Note 8: Endowments

ECA's endowment consists of approximately eight individual funds established for charitable care purposes. The endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECA's governing body has interpreted the State of California Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ECA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ECA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of ECA and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of ECA
7. Investment policies of ECA

The composition of net assets for the endowment fund at June 30, 2013 and 2012, was:

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,967	$ 3,647	$ 5,614

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,354	$ 3,647	$ 5,001

(In Thousands)

Changes in endowment net assets for the years ended June 30, 2013 and 2012, were:

	2013 Temporarily Restricted	2013 Permanently Restricted	2013 Total
Endowment net assets, beginning of year	$ 1,354	$ 3,647	$ 5,001
Investment return			
Investment gain	270	-	270
Net appreciation	394	-	394
Total investment return	664	-	664
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(51)	-	(51)
Endowment net assets, end of year	$ 1,967	$ 3,647	$ 5,614

	2012 Temporarily Restricted	2012 Permanently Restricted	2012 Total
Endowment net assets, beginning of year	$ 1,523	$ 3,644	$ 5,167
Investment return			
Investment gain	375	-	375
Net depreciation	(544)	-	(544)
Total investment loss	(169)	-	(169)
Contributions	-	3	3
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	$ 1,354	$ 3,647	$ 5,001

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2013 and 2012, respectively.

ECA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds ECA must hold in perpetuity or for donor-specified periods. Under ECA's policies, endowment assets are invested in a manner that is intended to produce results that exceed the average return of the Barclays Capital Aggregate Index for fixed income investments and the average return of the Russell 3000 index for equities while assuming an investment grade level of investment risk. ECA expects its endowment funds to provide an average rate of return of approximately 5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, ECA relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). ECA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

ECA has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of charitable care estimated to be provided as approved in the annual budget. In establishing this policy, ECA considered the long-term expected return on its endowment. This is consistent with ECA's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Note 9: Charitable Care

Traditional charitable care covers services provided to persons who cannot afford to pay. The estimated cost to provide these services was approximately $748 and $752 for 2013 and 2012, respectively. The estimated costs were calculated by applying the ratio of cost to charges to the gross uncompensated care charges.

(In Thousands)

Note 10: Functional Expenses

ECA provides residential and healthcare services to residents. Expenses related to providing these services are as follows:

	2013		2012	
Health care services	$	43,661	$	42,785
General and administrative		10,433		10,705
	$	54,094	$	53,490

Note 11: Professional Liability Claims

ECA purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue reported and unreported incidents, if any, occurring during the year by estimating the probable ultimate costs of the incidents.

Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, eliminated the practice of netting claim liabilities with expected insurance recoveries for statement of financial position presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon estimates of loss for ECA's claims, an accrual has been made for ECA's estimated costs associated with litigating or settling claims. It is reasonably possible that this estimate could change materially in the near term.

Note 12: Ground Leases

AVC owns a building located on land that was subject to a ground lease with Dignity Health. In May 2012, the ground lease was terminated due to AVC's purchase of the land as part of HUD refinancing (see *Note 5 (F)*).

AVSF holds a ground lease with the Roman Catholic Archbishop of San Francisco. The lease expires March 2060 with two optional terms to extend the lease for 15 years each. AVSF was required to prepay the first 30 years base rent in the amount of $4,092 in July 2002. The rent prepayment was capitalized as a land lease (see *Note 4*). Six months prior to the end of the AVSF ground lease term, the lessor will determine whether it will accept the premises in their existing condition or require that ECA demolish the improvements and return the land to its original condition. This ground lease was amended in October 2011 in connection with the long-term debt refinancing (see *Note 5 (G)*). The ground lease expiration date was extended to March 31, 2075, and AVSF has no options to extend the term of this lease. The amendment required AVSF to prepay an additional 43 years of base rent of $4,005, which was paid with a term loan by ECA-Corporate (see *Note 5 (B)*).

Note 13: Retirement Plans

ECA has a defined contribution plan and incentive plan which cover all employees. Employees are eligible for participation in the defined contribution plan at the date of hire and ECA matches the employee contribution, after the completion of one year of service, up to a maximum of 6% of the employee's salary. In addition, employees are eligible for the incentive plan after the completion of one year of service where ECA contributes a discretionary amount of the employee's salary (for fiscal year 2013 and 2012, ECA contributed between 1.0% – 2.0% and 0.5% – 1.5% of an employee's salary, respectively). During the years ended June 30, 2013 and 2012, ECA contributed $426 and $478, respectively, to the plans.

Note 14: Management Company

ECA entered into a management agreement with Life Care Services, LLC (LCS) in December 2007. Pursuant to this agreement, LCS provided ECA's chief executive director, chief financial officer, certain management personnel and other management and financial services. Effective July 1, 2011, ECA's chief executive director and chief financial officer terminated their employment with LCS and became direct employees of ECA. ECA terminated the existing management agreement effective December 31, 2011. Total fees paid to LCS during the years ended June 30, 2013 and 2012, were $0 and $904, respectively.

Note 15: Continuing Care Reserve Requirement

The State of California Health and Safety Code requires continuing care retirement communities to report on the adequacy of certain reserve requirements. Management has determined that SLH and MRCC met both the statutory and liquid reserve requirements at June 30, 2013, and was exempt from the refund reserve requirement at June 30, 2013.

Note 16: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. ECA does not hold securities classified as Level 3.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which ECA expects to have the ability to redeem its investment with investee within 12 months after the reporting date are categorized as Level 2.

(In Thousands)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Interest in investment pool	$ 13,587	$ -	$ 13,587	$ -
Fixed income securities				
U.S. Treasury securities	330	330	-	-
U.S. agencies	1,198	1,198	-	-
U.S. government				
Remics/CMOs	183	-	183	-
Corporate debt securities	1,475	-	1,475	-
Foreign bonds	516	-	516	-
Municipal bonds	351	-	351	-
Money market mutual funds	1,829	1,829	-	-
Other investments	156	-	156	-
June 30, 2012				
Interest in investment pool	$ 11,192	$ -	$ 11,192	$ -
Fixed income securities				
U.S. Treasury securities	334	334		
Government guaranteed bonds	156	156	-	-
U.S. agencies	2,120	2,120	-	-
U.S. government				
Remics/CMOs	365	-	365	-
Corporate debt securities	1,635	-	1,635	-
Foreign bonds	412	-	412	-
Municipal bonds	498	-	498	-
Equity securities				
Mutual funds	4	4	-	-
Money market mutual funds	2,078	2,078	-	-
Other investments	185	-	185	-

(In Thousands)

Note 17: The Fair Value Option

As permitted by Topic 825, ECA has elected to measure its interest in investment pools at fair value. Management has elected the fair value option for this item because it more accurately reflects the portfolio returns and financial position of ECA. Total interest in investments pools at June 30, 2013 and 2012, are $13,587 and $11,192, respectively.

ECA's interest in investment pool represents funds invested in two Dignity Health-managed investment pools. The underlying assets of the pools include a variety of different investments such as equity securities, mutual funds, fixed income securities, real estate investment trusts, hedge funds and various other investments. At June 30, 2013 and 2012, total unrealized gains on the interest in investment pool are 8% and 1% of the total cost of the fund, respectively. The unrealized losses and gains correlate with the changing stock market during 2012 and 2013.

See *Note 16* for additional disclosures regarding fair value of the interest in investment pools listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for the interest in investment pool for which the fair value option has been elected and the line item in which these changes are reported are as follows:

	2013		
	Unrestricted Gains from Investment Pool	Temporarily Restricted Gains from Investment Pool	Total Change in Fair Value
Interest in investment pool	$ 833	$ 727	$ 1,560

	2012		
	Unrestricted Losses from Investment Pool	Temporarily Restricted Losses from Investment Pool	Total Change in Fair Value
Interest in investment pool	$ (6)	$ (102)	$ (108)

Interest income on the investment pool is measured monthly and included in investment return in the accompanying statements of activities.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient and Resident Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient and resident service revenue are described in *Note 1*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *11*.

Contributions

Approximately 85% of all contributions were received from one donor in 2013.

Compliance

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health-care providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. ECA is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on ECA's consolidated financial position.

Litigation

In the normal course of business, ECA is, from time to time, subject to allegations that may or do result in litigation. ECA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

ECA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Asset Retirement Obligation

As discussed in *Note 1*, ECA has recorded a liability for its conditional asset retirement obligations related to asbestos removal at MRCC and SLH.

Current Economic Conditions

Due to the current regulatory environment, economic uncertainties, and the growing pressures on the budgets of both the state and federal governments, it is possible that Medicare and Medi-Cal reimbursement could change in the near term which could impact the financial results and cash flows of ECA. The values of assets and liabilities recorded in the financial statements could change rapidly, resulting in future adjustments.

Note 19: Subsequent Events

In August 2013, ECA entered into a nonbinding letter of intent to sell the facilities and certain assets of one of its 100%-owned subordinate corporations to an independent third party at a price in excess of the asset carrying value of approximately $3,000. ECA and the buyer have no contractual obligation to purchase or sell the property until the execution of a formal asset purchase agreement. In addition, the proposed sale would be contingent upon various approvals, including Attorney General approval for the transfer of licensed beds from ECA to the buyer. If all conditions of the contemplated agreement are met, management expects the sale to be finalized in the first half of 2014.

In September 2013, ECA entered into an asset purchase agreement to sell the facilities and certain assets of one of its 100%-owned subordinate corporations to an independent third party for a purchase price of $15,500, which approximates the carrying value of the assets. The agreement establishes a due diligence period where the buyer has discretion to elect to either continue or terminate the agreement. In addition, the sale is contingent upon ECA obtaining various corporate and third party consents before the end of the due diligence period. The sale is also contingent upon the buyer obtaining required licenses from designated regulatory agencies. If all conditions of the agreement are met, management expects the transaction to be finalized early next year.

Independent Auditor's Report on Supplementary Information

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

BKD, LLP

Springfield, Missouri
October 25, 2013

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Financial Position Information

June 30, 2013

(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash	$ 59	$ 1,181	$ 1,341	$ 558	$ 2,188	$ 469	$ 1,987	$ -	$ 7,783
Patient and resident accounts receivable, net	-	581	765	24	138	26	25	-	1,559
Due from related parties	10,858	-	-	-	41	-	22	(10,921)	-
Assets limited as to use - current	-	-	-	-	-	642	-	-	642
Prepaid expenses and other	65	86	113	84	209	24	220	-	801
Other receivables	32	9,544	18	27	-	-	1	-	9,622
Total current assets	11,014	11,392	2,237	693	2,576	1,161	2,255	(10,921)	20,407
Investments and Interest in Investment Pool	4,097	10,501	4,588	-	-	-	895	-	20,081
Assets Limited As To Use									
Internally designated	256	-	-	-	-	-	-	-	256
Under indenture agreement, held by trustee									
Debt service reserve	-	-	-	-	-	919	-	-	919
Held by mortgagee under loan agreement with HUD									
Reserve for replacements	-	-	-	176	165	-	202	-	543
Escrow deposits	-	-	-	78	75	-	472	-	625
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	256	678	-	254	240	919	674	-	3,021
Property and Equipment, Net	632	5,660	8,664	10,207	26,144	12,056	21,274	-	84,637
Deferred Financing Costs and Other	315	-	41	477	1,252	1,111	155	-	3,351
Total assets	$ 16,314	$ 28,231	$ 15,530	$ 11,631	$ 30,212	$ 15,247	$ 25,253	$ (10,921)	$ 131,497

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	$ 837	$ -	$ 200	$ 210	$ 586	$ 1,650	$ 558	$ -	$ 4,041
Accounts payable	179	285	163	93	101	45	101	-	967
Accrued expenses and other	1,013	705	604	307	515	474	430	-	4,048
Due to related parties	-	11	42	2,164	4,284	4,261	159	(10,921)	-
Total current liabilities	2,029	1,001	1,009	2,774	5,486	6,430	1,248	(10,921)	9,056
Long-Term Debt	17,693	-	3,942	12,002	37,013	14,339	32,049	-	117,038
Asset Retirement Obligations	-	571	411	-	-	-	-	-	982
Deferred Revenue - Unearned Entrance Fees	-	-	341	-	-	-	-	-	341
Total liabilities	19,722	1,572	5,703	14,776	42,499	20,769	33,297	(10,921)	127,417
Net Assets									
Unrestricted	(3,434)	22,361	8,033	(3,152)	(12,307)	(6,516)	(8,930)	-	(3,945)
Temporarily restricted	26	1,955	490	7	20	994	886	-	4,378
Permanently restricted	-	2,343	1,304	-	-	-	-	-	3,647
Total net assets	(3,408)	26,659	9,827	(3,145)	(12,287)	(5,522)	(8,044)	-	4,080
Total liabilities and net assets	$ 16,314	$ 28,231	$ 15,530	$ 11,631	$ 30,212	$ 15,247	$ 25,253	$ (10,921)	$ 131,497

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Financial Position Information
June 30, 2012
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash	$ 61	$ 355	$ 578	$ 180	$ 1,098	$ 312	$ 819	$ -	$ 3,403
Patient and resident accounts receivable, net	-	700	931	56	128	19	12	-	1,846
Due from related parties	10,038	-	-	-	-	-	-	(10,038)	-
Assets limited as to use - current	-	-	-	-	-	635	-	-	635
Prepaid expenses and other	54	61	62	179	310	27	207	-	900
Other receivables	29	28	27	23	1	-	14	-	122
Total current assets	10,182	1,144	1,598	438	1,537	993	1,052	(10,038)	6,906
Investments and Interest in Investment Pool	2,959	10,767	4,113	-	105	-	814	-	18,758
Assets Limited As To Use									
Under indenture agreement, held by trustee									
Debt service reserve	-	-	-	-	-	1,110	-	-	1,110
Held by mortgagee under loan agreement with HUD									
Reserve for replacements	-	-	-	125	118	-	167	-	410
Escrow deposits	-	-	-	-	1,182	-	482	-	1,664
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	-	678	-	125	1,300	1,110	649	-	3,862
Property and Equipment, Net	508	6,046	9,433	10,431	26,747	12,377	21,947	-	87,489
Deferred Financing Costs and Other	25	-	50	486	1,304	1,347	952	-	4,164
Total assets	$ 13,674	$ 18,635	$ 15,194	$ 11,480	$ 30,993	$ 15,827	$ 25,414	$ (10,038)	$ 121,179

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	$ 992	$ -	$ 200	$ 204	$ 565	$ 335	$ 396	$ -	$ 2,692
Accounts payable	473	548	488	83	87	25	98	-	1,802
Accrued expenses and other	450	751	659	308	608	481	493	-	3,750
Due to related parties	-	86	97	1,999	4,223	3,455	178	(10,038)	-
Total current liabilities	1,915	1,385	1,444	2,594	5,483	4,296	1,165	(10,038)	8,244
Long-Term Debt	18,530	-	4,160	12,212	37,599	15,887	31,689	-	120,077
Asset Retirement Obligations	-	539	387	-	-	-	-	-	926
Deferred Revenue - Unearned Entrance Fees	-	-	451	-	-	-	-	-	451
Total liabilities	20,445	1,924	6,442	14,806	43,082	20,183	32,854	(10,038)	129,698
Net Assets									
Unrestricted	(6,797)	12,622	7,212	(3,333)	(12,114)	(5,374)	(8,270)	-	(16,054)
Temporarily restricted	26	1,746	236	7	25	1,018	830	-	3,888
Permanently restricted	-	2,343	1,304	-	-	-	-	-	3,647
Total net assets	(6,771)	16,711	8,752	(3,326)	(12,089)	(4,356)	(7,440)	-	(8,519)
Total liabilities and net assets	$ 13,674	$ 18,635	$ 15,194	$ 11,480	$ 30,993	$ 15,827	$ 25,414	$ (10,038)	$ 121,179

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2013

(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	$ 470	$ 13,209	$ 12,856	$ 4,968	$ 10,280	$ 3,905	$ 9,265	$ -	$ 54,953
Contributions	378	9,858	421	-	-	39	-	-	10,696
Other revenue, net	-	321	112	57	64	8	27	-	589
Net assets released from restrictions for operations	-	215	31	-	5	10	30	-	291
Net assets released from restrictions for charity	-	323	97	-	-	-	-	-	420
Total revenues, gains and other support	848	23,926	13,517	5,025	10,349	3,962	9,322	-	66,949
Expenses and Losses									
Salaries and benefits	1,896	7,585	7,073	2,378	4,324	2,307	3,783	-	29,346
Purchased services and other	1,052	2,885	2,754	976	1,348	769	1,266	-	11,050
Supplies	35	1,062	1,060	349	598	303	520	-	3,927
Depreciation, amortization and other	161	1,043	809	390	818	600	782	-	4,603
Interest and fees	930	-	132	369	1,392	811	1,357	-	4,991
Provision for uncollectible accounts	-	3	82	8	50	5	29	-	177
Management fee	(3,738)	993	957	323	668	195	602	-	-
Intercompany expense	(297)	-	-	51	111	135	-	-	-
Total expenses and losses	39	13,571	12,867	4,844	9,309	5,125	8,339	-	54,094
Operating Income (Loss)	809	10,355	650	181	1,040	(1,163)	983	-	12,855
Other Income (Expense)									
Interest and dividend income	18	52	18	-	1	13	3	-	105
Gains from investment pool	-	666	167	-	-	-	-	-	833
Loss on extinguishments of debt	-	-	-	-	-	-	(1,612)	-	(1,612)
Excess (Deficiency) of Revenues Over Expenses	$ 827	$ 11,073	$ 835	$ 181	$ 1,041	$ (1,150)	$ (626)	$ -	$ 12,181

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2012

(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	$ 225	$ 12,616	$ 12,520	$ 4,833	$ 10,151	$ 3,628	$ 8,478	$ -	$ 52,451
Contributions	403	1,005	61	4	68	79	4	-	1,624
Other revenue, net	-	325	45	21	20	29	78	-	518
Net assets released from restrictions for operations	-	180	35	-	-	-	2	-	217
Net assets released from restrictions for charity	-	22	250	-	-	-	-	-	272
Total revenues, gains and other support	628	14,148	12,911	4,858	10,239	3,736	8,562	-	55,082
Expenses and Losses									
Salaries and benefits	1,625	7,661	7,088	2,294	4,210	1,995	3,654	-	28,527
Purchased services and other	1,747	3,085	2,381	923	1,461	661	1,247	-	11,505
Supplies	37	1,033	1,080	349	591	269	553	-	3,912
Depreciation, amortization and other	86	918	804	438	795	372	745	-	4,158
Interest and fees	913	-	272	253	1,325	826	1,613	-	5,202
Provision for uncollectible accounts	-	60	69	5	-	7	3	-	144
Management fee	(3,623)	993	936	294	664	184	552	-	-
Intercompany expense	(404)	-	-	10	81	313	-	-	-
(Gain) loss on disposal of property and equipment	7	27	10	(5)	2	-	1	-	42
Total expenses and losses	388	13,777	12,640	4,561	9,129	4,627	8,368	-	53,490
Operating Income (Loss)	240	371	271	297	1,110	(891)	194	-	1,592
Other Income (Expense)									
Interest and dividend income	76	83	7	-	65	1	1	-	233
Net realized and unrealized loss on interest rate swap agreements	-	-	-	-	73	-	-	-	73
Gains from investment pool	-	(11)	5	-	-	-	-	-	(6)
Loss on extinguishments of debt	-	-	-	(473)	(1,468)	-	-	-	(1,941)
Excess (Deficiency) of Revenues Over Expenses	$ 316	$ 443	$ 283	$ (176)	$ (220)	$ (890)	$ 195	$ -	$ (49)

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2013
(In Thousands)

	ECA - Corporate		Mercy Retirement and Care Center			Salem Lutheran Home Association of the Bay Cities, Inc.			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance, July 1, 2012	$ (6,797)	$ 26	$ 12,622	$ 1,746	$ 2,343	$ 7,212	$ 236	$ 1,304	$ (3,333)	$ 7
Excess (deficiency) of revenues over expenses	827	-	11,073	-	-	835	-	-	181	-
Transfers from affiliate	2,574	-	(1,306)	-	-	-	-	-	-	-
Investment return	-	-	-	-	-	-	-	-	-	-
Donor-restricted contributions	-	-	-	383	-	-	82	-	-	-
Net change in unrealized gains and losses on investments	(38)	-	(28)	-	-	(14)	-	-	-	-
Gains from investment pool	-	-	-	364	-	-	300	-	-	-
Net assets released from restrictions	-	-	-	(538)	-	-	(128)	-	-	-
Balance June 30, 2013	$ (3,434)	$ 26	$ 22,361	$ 1,955	$ 2,343	$ 8,033	$ 490	$ 1,304	$ (3,152)	$ 7

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2013

(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance, July 1, 2012	$ (12,114)	$ 25	$ (5,374)	$ 1,018	$ (8,270)	$ 830	$ (16,054)	$ 3,888	$ 3,647
Excess (deficiency) of revenues over expenses	1,041	-	(1,150)	-	(626)	-	12,181	-	-
Transfers from affiliate	(1,234)	-	-	-	(34)	-	-	-	-
Investment return	-	-	-	-	-	14	-	14	-
Donor-restricted contributions	-	-	-	7	-	5	-	477	-
Net change in unrealized gains and losses on investments	-	-	(13)	-	-	4	(93)	4	-
Gains from investment pool	-	-	-	-	-	63	-	727	-
Net assets released from restrictions	-	(5)	21	(31)	-	(30)	21	(732)	-
Balance June 30, 2013	$ (12,307)	$ 20	$ (6,516)	$ 994	$ (8,930)	$ 886	$ (3,945)	$ 4,378	$ 3,647

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2012
(In Thousands)

	ECA - Corporate		Mercy Retirement and Care Center			Salem Lutheran Home Association of the Bay Cities, Inc.			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance, July 1, 2011	$ (7,994)	$ 20	$ 12,196	$ 1,666	$ 2,343	$ 6,942	$ 529	$ 1,301	$ (3,427)	$ 7
Excess (deficiency) of revenues over expenses	316	-	443	-	-	283	-	-	(176)	-
Transfer from affiliate	887	-	-	-	-	-	-	-	270	-
Investment return	-	-	-	-	-	-	(31)	-	-	-
Donor-restricted contributions	-	6	-	352	-	-	91	3	-	-
Net change in unrealized losses on investments	(6)	-	(17)	-	-	(13)	(36)	-	-	-
Losses from investment pool	-	-	-	(70)	-	-	(32)	-	-	-
Net assets released from restrictions	-	-	-	(202)	-	-	(285)	-	-	
Balance June 30, 2012	$ (6,797)	$ 26	$ 12,622	$ 1,746	$ 2,343	$ 7,212	$ 236	$ 1,304	$ (3,333)	$ 7

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule – Statement of Activities Information

Year Ended June 30, 2012

(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance, July 1, 2011	$ (11,315)	$ 20	$ (4,505)	$ 1,035	$ (7,858)	$ 808	$ (15,961)	$ 4,085	$ 3,644
Excess (deficiency) of revenues over expenses	(220)	-	(890)	-	195	-	(49)	-	-
Transfer from affiliate	(550)	-	-	-	(607)	-	-	-	-
Investment return	-	-	-	-	-	28	-	(3)	-
Donor-restricted contributions	-	5	-	4	-	3	-	461	3
Net change in unrealized losses on investments	(29)	-	-	-	-	(7)	(65)	(43)	-
Losses from investment pool	-	-	-	-	-	-	-	(102)	-
Net assets released from restrictions	-	-	21	(21)	-	(2)	21	(510)	-
Balance June 30, 2012	$ (12,114)	$ 25	$ (5,374)	$ 1,018	$ (8,270)	$ 830	$ (16,054)	$ 3,888	$ 3,647

Elder Care Alliance and Subordinate Corporations

Supplemental Schedule of Cash Flows – Salem Lutheran Home Association of the Bay Cities, Inc.

Years Ended June 30, 2013 and 2012

(In Thousands)

	2013	2012
Cash Flows From Operating Activities		
Cash received from residents and third-party payers	$ 1,231	$ 1,562
Cash received from noncontract residents	11,542	10,340
Contributions	503	155
Reimbursement for services to nonresidents	66	198
Cash received from other operating activities	112	45
Cash received from interest	63	83
Cash paid to related parties	(1,012)	(866)
Cash paid to suppliers and employees	(11,225)	(10,216)
Cash paid for interest	(132)	(272)
Net cash provided by operating activities	1,148	1,029
Cash Flows From Investing Activities		
Purchases of investments and interest in investment pool	(91)	(1,035)
Sales of investments and interest in investment pool	25	953
Purchases of property and equipment	(101)	(867)
Net cash used in investing activities	(167)	(949)
Cash Flows From Financing Activities		
Proceeds from issuance of long-term debt	-	4,360
Repayment of long-term debt	(218)	(4,667)
Payment of deferred financing costs	-	(50)
Net cash used in financing activities	(218)	(357)
Increase (Decrease) in Cash	763	(277)
Cash, Beginning of Year	578	855
Cash, End of Year	$ 1,341	$ 578
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$ 1,075	$ (20)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, amortization and accretion	809	804
Loss on disposal of capital assets	-	10
Amortization of earned entrance fees	(110)	(268)
Net unrealized and realized gains on investments, net	(409)	182
Changes in certain current assets and liabilities		
Patient accounts receivable and other receivables	175	(82)
Prepaid expenses and other	(51)	2
Accounts payable	(231)	245
Accrued expenses and other	(55)	86
Net change in due to related parties	(55)	70
Net cash provided by operating activities	$ 1,148	$ 1,029
Supplemental Cash Flows Information		
Property and equipment acquisitions included in accounts payable	$ 4	$ 98

Elder Care Alliance and Subordinate Corporations
Supplemental Schedule of Cash Flows –
Mercy Retirement and Care Center
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
Cash Flows From Operating Activities		
Cash received from noncontract residents	$ 13,178	$ 12,457
Contributions	741	1,357
Reimbursement for services to nonresidents	131	198
Cash received from other operating activities	321	325
Cash received from interest	156	199
Cash paid to related parties	(1,068)	(967)
Cash paid to suppliers and employees	(11,690)	(11,547)
Net cash provided by operating activities	1,769	2,022
Cash Flows From Investing Activities		
Purchases of investments and interest in investment pool	(215)	(1,258)
Sales of investments and interest in investment pool	1,377	61
Purchases of property and equipment	(799)	(1,580)
Net cash provided by (used in) investing activities	363	(2,777)
Cash Flows From Financing Activities		
Transfer to affiliate	(1,306)	-
Net cash used in financing activities	(1,306)	-
Increase (Decrease) in Cash	826	(755)
Cash, Beginning of Year	1,033	1,788
Cash, End of Year	$ 1,859	$ 1,033
Reconciliation of Cash to Statements of Financial Position		
Cash	$ 1,181	$ 355
Cash in assets limited as to use	678	678
Total cash	$ 1,859	$ 1,033
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$ 9,948	$ 506
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and accretion	1,043	918
Unrealized and realized (gains) losses on investments, net	(897)	27
Transfer to affiliate	1,306	214
Changes in certain current assets and liabilities		
Patient accounts receivable and other receivables	(9,397)	99
Prepaid expenses and other	(25)	(25)
Accounts payable	(88)	209
Accrued expenses and other	(46)	48
Net change in due to related parties	(75)	26
Net cash provided by operating activities	$ 1,769	$ 2,022
Supplemental Cash Flows Information		
Property and equipment acquisitions included in accounts payable	$ 6	$ 181

The Salem Lutheran Home Association of the Bay Cities, Inc.

Independent Auditor's Report and Continuing Care Contract Annual Report

Year Ended June 30, 2013

BKD LLP
CPAs & Advisors

910 E. St. Louis Street, Suite 200
P.O. Box 1190
Springfield, MO 65801-1190
417.865.8701 Fax 417.865.0682 www.bkd.com

Independent Auditor's Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying continuing care reserve report (the "Reports") of The Salem Lutheran Home Association of the Bay Cities, Inc. (the "Association"), as of June 30, 2013, and for the year then ended.

Management's Responsibility for the Continuing Care Reserve Report

Management is responsible for the preparation and fair presentation of the Reports in accordance with accounting principles generally accepted in the United States of America and the report preparation provisions of the California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Reports that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

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

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 Reports referred to above, present fairly, in all material respects, the liquid reserve requirement of the Association at June 30, 2013, in accordance with accounting principles generally accepted in the United States of America and the report preparation provisions of the California Health and Safety Code Section 1792.

Other Matters

The accompanying Reports were prepared for filing with the State of California, Department of Social Services, for the purpose of complying with the provisions of the California Health and Safety Code Section 1792, as described in *Note 1*, and are not intended to be a complete presentation of the assets, liabilities, revenues and expenses of the Association.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the liquid reserve requirement of the Association. The additional schedules included in the Reports are presented for purposes of additional analysis and are not a required part of the Reports. Such information has not been subjected to the auditing procedures applied in the audit of the liquid reserve requirement, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Board of Directors and management of the Association and for filing with the Department of Social Services and should not be used for any other purposes.

BKD, LLP

Springfield, Missouri
October 25, 2013

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	17
[2]	Number at end of fiscal year	15
[3]	Total Lines 1 and 2	32
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	16
	All Residents	
[6]	Number at beginning of fiscal year	173
[7]	Number at end of fiscal year	164
[8]	Total Lines 6 and 7	337
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	168.50
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	.10

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service – interest only)		$12,866,311
[a]	Depreciation	$776,211	
[b]	Debt Service (Interest Only)	$131,952	
[2]	Subtotal (add Line 1a and 1b)		$908,163
[3]	Subtract Line 2 from Line 1 and enter result.		$11,958,148
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		10%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$1,195,815
			x .001
[6]	**Total Amount Due (multiply Line 5 by .001)**		$1,196

PROVIDER: The Salem Lutheran Home
COMMUNITY: Association of the Bay Cities, Inc.

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	6/11/2012	$218,000	$131,952	$0	$349,952
2					
3					
4					
5					
6					
7					
8					
		TOTAL:	$131,952	$0	$349,952

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

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

PROVIDER: The Salem Lutheran Home

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

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

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$349,952
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	$0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$349,952

PROVIDER: The Salem Lutheran Home

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$12,866,311
2		Deductions		
	a	Interest paid on long-term debt (see instructions)	$131,952	
	b	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c	Depreciation	$776,211	
	d	Amortization	$9,406	
	e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$11,625,583	
	f	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$12,543,152
4		Net Operating Expenses		$323,159
5		Divide Line 4 by 365 and enter the result.		$885
6		**Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve mount.**		$66,375

PROVIDER: The Salem Lutheran Home

COMMUNITY: Association of the Bay Cities, Inc.

Salem Home FY 13
CCRC Revenue Allocation
Attachment to Form 5-5
Line 2e

FY 13 Revenue Audited F/ S		**CCRC Amount**	**Non-CCRC Amount**	**Total Amount**
Residential & Assisted Living	4,449,121	683,910	3,765,211	4,449,121
Memory Care (Dem)	2,212,153	141,851	2,070,302	2,212,153
Skilled Nursing	4,831,752	253,285	4,578,467	4,831,752
Entrance Fees	270,732	109,632	161,100	270,732
Charitable Adjustments	(27,503)	-	(27,503)	(27,503)
Contractual Allowances	(254,343)	-	(254,343)	(254,343)
Subtotal Room & Board	**11,481,912**	**1,188,677**	**10,293,234**	**11,481,912**
Gross Ancillary Revenue	1,302,672	36,766	1,265,906	1,302,672
Other Operating Revenue**	71,676	5,233	66,443	71,676
Total Room & Board Revenue	**12,856,259**	**1,230,676**	**11,625,583**	**12,856,259**
		9.57%	**90.43%**	

**Note: Included in other operating revenue are reimbursements received for services provided to non-residents, such as guest accomodations and meals, and miscellancous vendor refunds.

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: The Salem Lutheran Home

Fiscal Year Ended: 6/30/2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 6/30/2013 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	$349,952
[2]	Operating Expense Reserve Amount	$ 66,375
[3]	**Total Liquid Reserve Amount:**	$ 416,327

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

	Qualifying Asset Description		Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents		$349,952		$991,191
[5]	Investment Securities		$0		$1,850,619
[6]	Equity Securities				
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve				(not applicable)
[10]	Other: ____ (describe qualifying asset)				
	Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11]	$349,952	[12]	$2,841,810
	Total Amount Required:	[13]	$349,952	[14]	$66,375
	Surplus/(Deficiency):	[15]	$0	[16]	$2,775,435

Signature:

(Authorized Representative)

Date: 10-23-13

President + CEO

(Title)

FORM 5-5

Note 1

The continuing care reserve report has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that the Association should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, the Association has computed its liquid reserve requirement as of June 30, 2013, the Association's most recent fiscal year end, and the reserve is based on audited financial statements for that period.

SALEM LUTHERAN HOME ASSOCIATION OF THE BAY CITIES, INC.
YEAR ENDING JUNE 30, 2013
H&SC SECTION 1790(a)(2) and DISCLOSURE

Description of all Reserves Maintained

	June 30, 2013	June 30, 2012
Restricted Funds		
Charitable Care & Other	$1,794,710	$1,540,568
	$1,794,710	$1,540,568

Status: These Funds are fully funded

Funds Accumulated for Specific Projects or Purposes

Per Capita Cost of Operations

Total operating Expenses(Form 5-4, Line 1)	$12,866,311	To be filled in from Form 5-4
Mean number of all residents(Form 1-1, Line 10)	168.5	To be filled in from Form 1-1
	$76,358	

Continuing Care Retirement Community
Disclosure Statement
General Information

10/31/2013

FACILITY NAME: Salem Lutheran Home

ADDRESS: 2361 East 29th Street, Oakland, CA **ZIP CODE:** 94606 **PHONE:** (510) 534-3637

PROVIDER NAME The Salem Lutheran Home Assoc. **FACILITY OPERATOR:** Salem Lutheran Home

RELATED FACILITIES: Mercy Retirement & Care Ctr. **RELIGIOUS AFFILIATION:** Sponsored by Sierra Pacific Synod of the Lutheran Synod

YEAR OPENED: 1978 **NO. OF ACRES:** 5 **MULTI-STORY:** ☐ **SINGLE STORY:** ☐ **BOTH:** ☑

MILES TO SHOPPING CTR: 5 miles **MILES TO HOSPITAL:** 2 to 3 miles

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	12	ASSISTED LIVING	65
APARTMENTS – 1 BDRM	17	SKILLED NURSING	48
APARTMENTS – 2 BDRM	6	SPECIAL CARE	30
COTTAGES/HOUSES	4	DESCRIBE SPECIAL CARE:	Dementia
% OCCUPANCY AT YEAR END	90%		

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: 0-3 months - 100%; 3-24 months - Pro Rata Portion; after 24 months - None

RANGE OF ENTRANCE FEES: $ 21,000 TO $ 135,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None.

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: None OTHER: None

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FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☐	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☐	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☐	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER ______	☐	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	Weekly	Daily
NUMBER OF MEALS/DAY	1-3	
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☑
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☐
PERSONAL NURSING/HOME CARE	☑	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☐
OTHER Rehabilitation Therapies	☑	☑

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: The Salem Lutheran Home

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$10,747	$11,497	$12,297	$12,858
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$(10,008)	$(10,752)	$(11,586)	$(11,950)
NET INCOME FROM OPERATIONS	$739	$745	$687	$908
LESS INTEREST EXPENSE	$(334)	$(302)	$(272)	$(132)
PLUS CONTRIBUTIONS	$301	$276	$155	$503
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$328	$688	$(99)	$472
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$1,034	$1,407	$471	$1,751
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$213	$(41)	$0	$0

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CNB	$4,142,000	3%-variable	06/11/12	07/01/17	5 years

FINANCIAL RATIOS (see next page for ratio formulas)

	2005 CCAC Medians 50th Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		30.56%	28.70%	25.38%
OPERATING RATIO		95.52%	96.14%	90.98%
DEBT SERVICE COVERAGE RATIO		228.55%	169.49%	494.82%
DAYS CASH-ON-HAND RATIO		75.45	69.85	96.42

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2010	%	2011	%	2012	%	2013
STUDIO	$2,692	-0.5%	$2,679	2.0%	$2,733	2.3%	$2,797
ONE BEDROOM	$3,347	1.3%	$3,389	2.6%	$3,477	5.9%	$3,681
TWO BEDROOM	$3,973	2.1%	$4,057	5.2%	$4,266	8.5%	$4,630
COTTAGE/HOUSE	$3,510	-38.9%	$2,143	98.3%	$4,250	5.6%	$4,487
ASSISTED LIVING	$2,341	27.9%	$2,994	-15.7%	$2,524	3.1%	$2,602
SKILLED NURSING	$7,948	5.4%	$8,374	6.1%	$8,887	3.6%	$9,203
SPECIAL CARE	$5,301	1.4%	$5,374	1.0%	$5,427	6.5%	$5,780

COMMENTS FROM PROVIDER: Fees for studios and one bedroom units increased as Salem moved residents toward posted rates with a cap on increases. The two bedroom units increased due to the turnover of below posted rate residents. The Cottages increased due to the high number of larger cottages currently in service. Assisted Living increased due to turnover of below posted rate residents. Skilled Nursing increased due to occupancy mix. Special Care units increased due to turnover of below posted rate residents.

PROVIDER NAME: The Salem Lutheran Home

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$2,380 - $4,775	$2,055 - $5,840	$8,000 - $10,950
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.00% - 3.06%	3.01% - 4.01%	3.10% - 4.35%

☐ 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: July 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☑ Each fee increase is based on the provider's projected costs, prior year per capita costs, and 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: The Salem Lutheran Home
COMMUNITY: Association of the Bay Cities, Inc.

Salem Lutheran Home Association of the Bay Cities, Inc.
Year Ending June 30, 2013
Form 7-1, Item 5 Explanation for Increase in Monthly Services

Increase in	Percent	Explanation
Residential Living	3.00% - 3.06%	Due to labor cost increases of 3%, insurance increases of 5%, food cost increases of 3% and IT systems and support cost increases of 8%.
Assisted Living	3.01% - 4.01%	Due to labor cost increases of 3%, insurance increases of 5%, food cost increases of 3% and IT systems and support cost increases of 8%.
Skilled Nursing	3.10% - 4.35%	Due to labor cost increases of 3%, insurance increases of 5%, food cost increases of 3% and IT systems and support cost increases of 8%.