

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:

12 / 31 / 13

PROVIDER(S): SOLHEIM LUTHERAN HOME

RECEIVED
APR 30 2014

CCRC(S): SAME AS ABOVE

CONTINUING CARE
CONTRACTS BRANCH

CONTACT PERSON: ANTONIO DAVILA

TELEPHONE NO.: (323) 257-7518

EMAIL: ADavila@solheimlutheran.org



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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 5,329.00
 - If applicable, late fee in the amount of: \$ _____
- Certification by the provider's **Chief Executive Officer** that:
 - The reports are correct to the best of his/her knowledge.
 - 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.

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	86
[2]	Number at end of fiscal year	72
[3]	Total Lines 1 and 2	158
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	79
All Residents		
[6]	Number at beginning of fiscal year	160
[7]	Number at end of fiscal year	144
[8]	Total Lines 6 and 7	304
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	152
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.52

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$10,931,648
[a]	Depreciation	\$580,491
[b]	Debt Service (Interest Only)	\$98,326
[2]	Subtotal (add Line 1a and 1b)	\$678,817
[3]	Subtract Line 2 from Line 1 and enter result.	\$10,252,831
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	52%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$5,328,774
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$5,329

PROVIDER: SOLHEIM LUTHERAN HOME
COMMUNITY:

2236 merton avenue
los angeles
(eagle rock)
california
90041-1915
323 257 7518
fax 323 255 3544
www.solheimlh.org

April 28, 2014

Ms. Allison Nakatomi, Manager
Department of Social Services
Continuing Care Contracts Branch
744 P Street, MS 8-3-90
Sacramento, CA 95814

RE: 2013 Annual Report

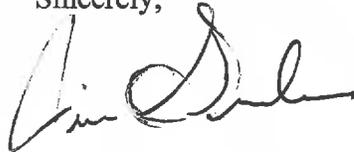
Dear Ms. Nakatomi:

Via this letter, I certify that:

- The Annual Report and its supplemental forms are correct to the best of my knowledge
- Each continuing care contract in use at Solheim Lutheran Home has been approved by your department
- Solheim maintains the required liquid reserve. No reserves for prepaid continuing care contracts or refund reserves are required to be maintained

If you have any questions please contact Antonio Davila, Chief Financial Officer, at (323) 257-7518 Ext 227

Sincerely,



Jim Graunke
Executive Director



providing abundant living for older adults

comfort, care, dignity

R E C E I V E D
APR 30 2014

CONTINUING CARE
CONTRACTS BRANCH

Financial Statements

SOLHEIM LUTHERAN HOME

For the Years Ended December 31, 2013 and 2012

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**SOLHEIM LUTHERAN HOME
DECEMBER 31, 2013**

BOARD MEMBERS AND OFFICERS

PRESIDENT	Joel F. Miller
VICE PRESIDENT	James Tranquada
SECRETARY	Annette Brende, RN, MBA
TREASURER	Adam Sisson, CPA
EXECUTIVE DIRECTOR	James W. Graunke
DIRECTOR OF FINANCE/CFO	Antonio Davila
MEMBER	Dr. Jill M. Brink, Ph.D.
MEMBER	Sue Clauss
MEMBER	Paul Egge
MEMBER	AnnMarie Flaherty, CPA
MEMBER	Dr. Ralph Jung, M.D.
MEMBER	Tracy King
MEMBER	William L. Krantz
MEMBER	Kenneth Martin
MEMBER	Rev. Kathleen Richter
MEMBER	David C. Starleaf, Esq.
MEMBER	Masa Suzuki
BISHOP, SOUTHWEST CALIFORNIA SYNOD, ELCA	Rev. R. Guy Erwin
RESIDENT REPRESENTATIVE	Patti Cox

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101
TEL: (626) 577-1440 FAX: (626) 577-1082

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APR 30 2013
CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Solheim Lutheran Home

We have audited the accompanying financial statements of Solheim Lutheran Home (a nonprofit health care entity), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors of
Solheim Lutheran Home

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solheim Lutheran Home as of December 31, 2013 and 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Direct Operating Expenses by Department on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



April 25, 2014

**SOLHEIM LUTHERAN HOME
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 401,358	\$ 999,349
Cash and investments held by bond indenture trustee for current debt payments	544,908	532,869
Investments (Note 5)	2,663,551	1,895,970
Accounts receivable, net (Note 2)	683,794	535,364
Contribution receivable (Note 3)	1,500,000	-
Other receivables	108,398	-
Prepaid expenses and other current assets	135,806	133,531
Total Current Assets	6,037,815	4,097,083
Assets Whose Use is Limited		
Cash and investments held by bond indenture trustee (Note 4)	839,533	841,266
Less portion available to satisfy current debt service	544,908	532,869
Noncurrent portion	294,625	308,397
Investments - board designated, temporarily restricted and permanently restricted (Note 5)	704,421	573,365
Total Assets Whose Use is Limited	999,046	881,762
Facilities and Equipment, Net (Note 8)	4,758,128	4,836,307
Real Estate Held for Investment and Future Expansion, Net (Note 9)	1,398,218	1,398,254
Deferred Costs and Other Assets (Note 10)	448,178	475,508
Total Assets	\$13,641,385	\$11,688,914

The accompanying notes are an integral part of these statements.

SOLHEIM LUTHERAN HOME
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012
(continued)

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities		
Accounts payable	\$ 451,936	\$ 297,049
Accrued payroll and payroll taxes	174,095	161,219
Accrued vacation and personal time	232,523	238,551
Long-term debt, current portion (Note 11)	567,811	551,025
Refundable entrance fees, current	275,693	248,298
Accrued interest	17,483	20,578
Total Current Liabilities	1,719,541	1,516,720
Other Liabilities		
Long-term debt, net of current portion (Note 11)	2,328,497	2,896,265
Refundable entrance fees, long-term	28,315	172,221
Deferred revenue - entrance fees	1,934,038	1,965,043
Total Other Liabilities	4,290,850	5,033,529
Total Liabilities	6,010,391	6,550,249
Net Assets		
Unrestricted		
General Fund	6,626,573	4,565,300
Board Designated Fund for Benevolent Endowment	633,732	512,223
Board Designated Fund for Capital Replacement	50,192	50,181
Total Unrestricted Net Assets	7,310,497	5,127,704
Temporarily restricted net assets	320,497	2,364
Permanently restricted net assets	-	8,597
Total Net Assets	7,630,994	5,138,665
Total Liabilities And Net Assets	\$13,641,385	\$11,688,914

The accompanying notes are an integral part of these statements.

SOLHEIM LUTHERAN HOME
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Changes in Unrestricted Net Assets		
Operating Revenues		
Resident fees - Skilled Nursing level	\$ 5,790,235	\$ 5,849,643
Resident fees - Residential level	612,495	637,352
Resident fees - Assisted Living level	1,267,322	1,877,577
Resident fees - Memory Care level	1,964,785	1,907,162
Ancillary services to residents	672,995	751,896
Other monthly fees	48,601	68,258
Entrance fees earned	824,660	665,991
Processing fees	8,000	10,000
Interest and dividends	100,206	106,364
Contributions - bequests	1,287,500	1,999
Contributions - other	156,842	107,316
Net realized gains on investments	37,343	77,817
Net rental loss (Note 14)	(42,495)	(43,839)
Other income	15,007	15,267
Net assets released from restrictions	18,409	39,421
	12,761,905	12,072,224
Operating Expenses		
Direct operating expenses	10,163,573	10,683,763
Depreciation	580,491	565,084
Amortization	38,370	38,370
Interest expense	98,326	114,829
Equipment leases	23,510	18,346
Property taxes and insurance	27,378	25,671
	10,931,648	11,446,063
Change in Unrestricted Net Assets From Operations	1,830,257	626,161
Net Unrealized Gain on Investments	352,536	9,378
Change in Unrestricted Net Assets	\$ 2,182,793	\$ 635,539

The accompanying notes are an integral part of these statements.

SOLHEIM LUTHERAN HOME
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(continued)

	2013	2012
Changes in Temporarily Restricted Net Assets		
Contributions		
Bequest	\$ 300,000	\$ -
Charity care	9,265	4,380
Acquisitions of facilities and equipment	7,105	25,718
Activities and other programs	11,092	3,066
Contributions Received	327,462	33,164
Net Assets Released from Restrictions		
Funds used for charity care	(6,400)	(4,380)
Funds used for facilities and equipment	(5,939)	(30,925)
Funds used for activities and other programs	(6,070)	(4,116)
Net Assets Released From Restrictions	(18,409)	(39,421)
Change in Temporarily Restricted Net Assets	309,053	(6,257)
Changes in Permanently Restricted Net Assets		
Earnings on permanently restricted net assets	483	600
Change in Net Assets	2,492,329	629,882
Net Assets, Beginning of Year	5,138,665	4,508,783
Net Assets, End of Year	\$ 7,630,994	\$ 5,138,665

The accompanying notes are an integral part of these statements.

SOLHEIM LUTHERAN HOME
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Unrestricted Net Assets		
Unrestricted Net Assets in General Fund		
Balance, beginning of year	\$ 4,565,300	\$ 3,955,437
Change in General Fund net assets	2,182,793	635,539
Transfers to Board Designated Fund for Benevolent Endowment	(43,750)	(999)
Transfer (to) from Board Designated Fund for Capital Replacement	(11)	2
Transfer of investments earnings to Board Designated Fund for Benevolent Endowment	(77,759)	(24,679)
Balance, End of Year	6,626,573	4,565,300
Board Designated Fund for Benevolent Endowment		
Balance, beginning of year	512,223	486,545
Transfers from General Fund	43,750	999
Earnings on Board Designated Fund for Benevolent Endowment	77,759	24,679
Balance, End of Year	633,732	512,223
Board Designated Fund for Capital Replacement		
Balance, beginning of year	50,181	50,183
Transfer (to) from General Fund	11	(2)
Balance, End of Year	50,192	50,181
Total Unrestricted Net Assets, End of Year	\$ 7,310,497	\$ 5,127,704
Temporarily Restricted Net Assets		
Balance, beginning of year	2,364	8,621
Change in temporarily restricted net assets	309,053	(6,257)
Reclassification of net assets consistent with donor intent	9,080	-
Balance, End of Year	\$ 320,497	\$ 2,364
Permanently Restricted Net Assets		
Balance, beginning of year	8,597	7,997
Change in permanently restricted net assets	483	600
Reclassification of net assets consistent with donor intent	(9,080)	-
Balance, End of Year	\$ -	\$ 8,597

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash received from residents for monthly services	\$ 10,344,874	\$ 10,918,371
Cash received from residents for entrance fees	802,800	756,548
Cash received from services to others	22,291	68,385
Interest and dividends received	100,689	106,964
Contributions received	264,229	142,479
Cash paid to employees and suppliers	(10,277,197)	(10,635,496)
Interest paid on long-term debt	(132,584)	(150,476)
	<u>1,125,102</u>	<u>1,206,775</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Purchases of investments	(2,093,991)	(1,055,443)
Sales of investments	1,585,233	1,532,991
Net cash transferred (to) from trustee	1,733	(7,911)
Purchases of facilities and equipment	(502,276)	(311,275)
Proceeds from sale of equipment	-	1,300
Deferred costs related to future expansion	(11,040)	(65,388)
	<u>(1,020,341)</u>	<u>94,274</u>
Net Cash Provided by (Used in) Investing Activities		
Cash Flows from Financing Activities		
Entrance fees refunded	(151,770)	(56,925)
Principal payment on long-term debt	(550,982)	(534,340)
	<u>(702,752)</u>	<u>(591,265)</u>
Net Cash Used in Financing Activities		
Increase (Decrease) in Cash and Cash Equivalents	(597,991)	709,784
Cash and Cash Equivalents, Beginning of Year	<u>999,349</u>	<u>289,565</u>
Cash and Cash Equivalents, End of Year	<u>\$ 401,358</u>	<u>\$ 999,349</u>

The accompanying notes are an integral part of these statements.

SOLHEIM LUTHERAN HOME
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(continued)

	2013	2012
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 2,492,329	\$ 629,882
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	580,491	565,084
Amortization of bond issuance costs	38,370	38,370
Amortization of entrance fees	(824,660)	(665,991)
Provision for doubtful accounts	(38,185)	53,727
Net realized gains on investments	(37,343)	(77,817)
Net unrealized gains on investments	(352,536)	(9,378)
Gain on disposition of equipment	-	(1,300)
(Increase) decrease in:		
Accounts receivable	(110,245)	1,422
Contribution receivable	(1,500,000)	-
Other receivables	(108,398)	-
Prepaid expenses and other current assets	(2,275)	16,396
Increase (decrease) in:		
Accounts payable	154,887	24,358
Accrued payroll and payroll taxes	12,876	38,016
Accrued vacation and personal time	(6,028)	(11,490)
Accrued interest	(3,095)	(2,852)
Deferred revenue - entrance fees and refundable entrance fees	828,914	608,348
Net Cash Provided by Operating Activities	\$ 1,125,102	\$ 1,206,775

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Mission Statement

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

General

Solheim Lutheran Home (“Solheim”) is a not-for-profit continuing care retirement community located in the city of Los Angeles and is affiliated with the Evangelical Lutheran Church in America (“ELCA”) as a social ministry organization. Solheim is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is regulated by the California Department of Public Health and by the California Department of Social Services, Community Care Licensing, and Continuing Care Contracts Branch.

Solheim has a total capacity of 182 residents who reside at four care levels: residential, assisted living, memory care, and skilled nursing: 61 persons in residential and assisted living, 45 persons in the Morgan and Anna Halvorson Special Care Unit for those with Alzheimer's disease and other forms of cognitive impairment, and 76 persons in the Elizabeth C. Batchelder Skilled Nursing Facility. The Skilled Nursing Facility is certified under both Medi-Cal (State program) and Medicare (Federal program).

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

Basis of Accounting

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Investments

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

Investment management fees were \$16,827 and \$16,094, for December 31, 2013 and 2012, respectively.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Other-Than-Temporary Impairments of Investments

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

Accounts Receivable

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

Contribution Receivable

The contribution receivable at December 31, 2013, represents an estate gift that is due and not received as of the financial statement date. Contributions expected to be collected in one year are recorded as revenue and a receivable at net realizable value, which approximates fair value. No allowance for uncollectible contribution receivable is provided as management has determined that it is fully collectible.

Facilities and Equipment

Depreciation on facilities and equipment is computed on a straight-line basis, with useful lives ranging from five to forty years, depending on the asset category. Acquisitions of \$500 or more with a useful life of more than two years are capitalized. Purchased assets are recorded at cost. Donated assets are recorded at estimated fair value at date of donation. Repairs and maintenance are charged to expense in the period incurred; major renewals and betterments are capitalized. Construction in progress consists of costs incurred on remodel projects or fixed asset purchases that have not been placed in service as of year-end. Depreciation starts once the related assets are placed in service.

Deferred Revenue – Entrance Fees and Refundable Entrance Fees

For the right to become a continuing care resident of Solheim, residents are required to pay an entrance fee, a portion of which may be refundable based on the length of stay in the community. If the resident or Solheim cancels the contract within the first ninety days of occupancy, the entire fee is refundable. If the resident stays more than ninety days, the refundable portion of the fee is prorated on a monthly basis over the first three years of occupancy. Residents not on a continuing care contract pay a higher monthly fee.

Entrance fees applicable to residents entering the community are being earned over the anticipated life expectancies of these residents. The life expectancies of the continuing care residents used to record revenue earned for accounting purposes are adjusted each year based on the table developed by the state of California.

The amount of entrance fees expected to be refunded to current residents is estimated based on Solheim's historical refund experience and Solheim's refund policy.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Deferred Revenue – Entrance Fees and Refundable Entrance Fees (continued)

At December 31, 2013 and 2012, an estimated \$970,000 and \$992,000, respectively, was contractually refundable. These amounts represent the amount due to residents, if all were to cancel their contracts as of December 31, 2013 and 2012, respectively, based on Solheim's refund policy. The contractually refundable amount is included in deferred revenue from entrance fees and refundable entrance fees (current and long-term) in the accompanying statements of financial position.

Obligations to Provide Future Services and Use of Facilities to Current Residents

If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. Solheim's computation has been made which indicated that as of December 31, 2013 and 2012, the estimated amounts received or to be received from current continuing care residents will exceed the estimated costs of providing future services and use of facilities to those residents. Consequently, no liability is shown on the statements of financial position at either date. For the years ended December 31, 2013 and 2012, the discount rate used for this calculation was 3% percent.

The California Health and Safety Code Section 1790 mandates a statutory reserve and a liquid asset requirement. The mandates were met for the years ending December 31, 2013 and 2012.

Workers' Compensation and Liability Insurance

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

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

Net Assets

Solheim's net assets comprise the following:

Unrestricted Net Assets

Unrestricted net assets represent the portion of expendable net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These net assets are available for support of the ordinary operations and administration of Solheim. Unrestricted net assets also include board designated net assets. These board designated net assets include:

- Board Designated Fund for Benevolent Endowment – to be used for supporting charitable care to residents. Effective January 1, 2014, the Board of Directors redesigned the fund to not function as an endowment. As a result, the name was changed to the Board Designated Fund for Benevolence.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Net Assets (continued)

Unrestricted Net Assets (continued)

- Board Designated Fund for Capital Replacement – created pursuant to the terms of the 2004 Refunding Revenue Bonds. Solheim is obligated to increase the reserve in future years in accordance with the increases in the consumer price index if its equipment purchases and the repair and maintenance expense of its facilities do not exceed the reserve amount.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent net assets that result from contribution and other inflows of assets whose use by Solheim is limited by donor-imposed restrictions that either expire by passage of time or can be satisfied by actions of Solheim.

Permanently Restricted Net Assets

Permanently restricted net assets represent net assets that result from contributions and other inflows of assets whose use by Solheim is limited by donor-imposed restrictions that neither expire by passage of time, nor can be fulfilled and removed by actions of Solheim pursuant to those restrictions. During 2013, management reclassified \$9,080 from permanently restricted net assets to temporarily restricted net assets, consistent with donor intent.

Contributions

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

Revenue Recognition

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

Solheim reduces the monthly fee charged to residents below the full rate for those residents whose personal funds are not sufficient and who are not eligible for government assistance. The total subsidy provided was approximately \$156,000 for 9 residents in 2013 and approximately \$163,000 for 11 residents in 2012. These amounts are recorded as reductions in operating revenues in the accompanying statements of activities.

Amortization

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

Advertising

Solheim expenses advertising costs as they are incurred. Advertising costs expensed during 2013 and 2012 were approximately \$36,000 and \$25,000, respectively.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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

Change in Unrestricted Net Assets from Operations (Performance Indicator)

Increase in unrestricted net assets from operations reports the results of operations for Solheim. In addition to the income from resident care operations, this amount includes investment income, realized gains and losses on investments, and other items. It excludes unrealized gains and losses on investments.

Functional Expenses

Expenses related to more than one functional expense category are allocated based on estimates by Solheim. Expenses by functional classification were as follows:

	<u>2013</u>	<u>2012</u>
Program services	\$ 8,964,548	\$ 9,678,651
General and administrative	1,810,899	1,622,720
Fundraising	<u>156,201</u>	<u>144,692</u>
	<u>\$ 10,931,648</u>	<u>\$ 11,446,063</u>

Income Taxes

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

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

Reclassifications

Certain amounts included in the 2012 financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2013 financial statements.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Use of Estimates

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

Note 2 – Accounts Receivable

Accounts receivable consists of the following as of December 31, 2013 and 2012:

	2013	2012
Monthly fees – private payers	\$ 314,044	\$ 281,922
Monthly fees – Medi-Cal	123,117	107,001
Monthly fees – Medicare	196,807	244,261
Other payors	92,626	64,180
Entrance fees	107,200	38,000
	833,794	735,364
Less allowance for uncollectible accounts	(150,000)	(200,000)
Accounts receivable, net	\$ 683,794	\$ 535,364

Note 3 – Contribution Receivable

The contribution receivable at December 31, 2013, represents an estate gift that is due and not received as of the financial statement date. The total contribution receivable at December 31, 2013 is \$1,500,000, of which \$1,200,000 was received January 6, 2014. The remaining \$300,000 is expected to be collected within one year and is classified as temporarily restricted due to the time restriction on the availability of the remaining funds.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 4 – Cash and Investments Held by Bond Indenture Trustee

The following trust funds were held and invested at December 31, 2013 and 2012, by U.S. Bank, San Francisco, California, Trustee for the 2004 Refunding Revenue Bonds and allocated for the following purposes:

	<u>2013</u>	<u>2012</u>
Bond reserve fund	\$ 738,752	\$ 719,880
Interest fund	15,851	21,723
Principal account	88,333	85,833
Revenue fund	1,651	-
	<u>844,587</u>	<u>827,436</u>
Total, at cost	844,587	827,436
Add: Unrealized gain (loss)	(5,054)	13,830
	<u>839,533</u>	<u>841,266</u>
Total, at Aggregate Market Value	<u>\$ 839,533</u>	<u>\$ 841,266</u>

Note 5 – Investments

Investments consisted of the following as of December 31, 2013 and 2012:

<u>2013</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts and certificates of deposit	\$ 1,547,450	\$ 1,553,156
Corporate bonds	467,531	472,072
Equity securities	2,192,524	1,508,329
Total	<u>4,207,505</u>	<u>3,533,557</u>
Less assets whose use is limited:		
Cash and investments held by bond indenture trustee	(839,533)	(844,587)
Investments – board designated for Benevolent Endowment	(633,732)	(387,084)
Investments – board designated for Capital Replacement	(50,192)	(50,000)
Investments – temporarily restricted	(20,497)	(20,497)
Investments – permanently restricted	-	-
Total	<u>\$ 2,663,551</u>	<u>\$ 2,231,389</u>

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 5 – Investments (continued)

<u>2012</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts and certificates of deposit	\$ 1,373,373	\$ 1,357,408
Corporate bonds	51,513	51,531
Equity securities	1,885,715	1,580,247
Total	<u>3,310,601</u>	<u>2,989,186</u>
Less assets whose use is limited:		
Cash and investments held by bond indenture trustee	(841,266)	(827,436)
Investments – board designated for Benevolent Endowment	(512,223)	(311,533)
Investments – board designated for Capital Replacement	(50,181)	(50,000)
Investments – temporarily restricted	(2,364)	(2,364)
Investments – permanently restricted	(8,597)	(8,594)
Total	<u>\$ 1,895,970</u>	<u>\$ 1,199,927</u>

Note 6 – Other-Than-Temporary Impairment of Investments

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

	Fair Value Below Cost as of December 31, 2013					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	\$ -	\$ -	\$ 268,104	\$ (32,139)	\$ 268,104	\$ (32,139)
Corporate bonds	308,204	(5,670)	-	-	308,204	(5,670)
Total Temporarily Impaired Securities	<u>\$ 308,204</u>	<u>\$ (5,670)</u>	<u>\$ 268,104</u>	<u>\$ (32,139)</u>	<u>\$ 576,308</u>	<u>\$ (37,809)</u>

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 6 – Other-Than-Temporary Impairment of Investments (continued)

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

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other-than-temporary impairment under management's policy. Solheim follows a policy of evaluating securities for impairment, which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended December 31, 2013 and 2012, no securities were determined to be other-than-temporarily impaired.

Note 7 – Fair Value Measurements

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

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

- Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 7 – Fair Value Measurements (continued)

- Level 2** Inputs to the valuation methodology include
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

There have been no changes in the methodologies used at December 31, 2013 and 2012.

Money market accounts and certificates of deposit: valued at fair value by reference to quoted prices in active markets for identical assets or liabilities (unadjusted) that Solheim has the ability to access at the measurement date.

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

Corporate bonds: valuation based on an independent pricing service and based on recent sales of similar securities and other observable market data.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 7 – Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2013:

	Assets at Fair Value as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Investments				
Money market accounts and certificates of deposit	\$ 707,917	\$ 707,917	\$ -	\$ -
Equity securities	2,192,524	2,192,524	-	-
Corporate bonds	467,531	-	467,531	-
Cash and investments held by bond indenture trustee				
Money market accounts and certificates of deposits	839,533	839,533	-	-
	<u>\$ 4,207,505</u>	<u>\$ 3,739,974</u>	<u>\$ 467,531</u>	<u>\$ -</u>

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

	Assets at Fair Value as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
Investments				
Money market accounts and certificates of deposit	\$ 532,107	\$ 532,107	\$ -	\$ -
Equity securities	1,885,715	1,885,715	-	-
Corporate bonds	51,513	-	51,513	-
Cash and investments held by bond indenture trustee				
Money market accounts and certificates of deposits	841,266	841,266	-	-
	<u>\$ 3,310,601</u>	<u>\$ 3,259,088</u>	<u>\$ 51,513</u>	<u>\$ -</u>

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 8 – Facilities and Equipment

Facilities and equipment at December 31, 2013, and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 357,089	\$ 357,089
Land improvements	833,775	833,775
Buildings and building improvements	10,783,661	10,518,756
Furniture, fixtures and equipment	3,016,311	2,960,907
Construction in progress	176,140	-
	<u>15,166,976</u>	<u>14,670,527</u>
Less accumulated depreciation	10,408,848	9,834,220
Total	<u>\$ 4,758,128</u>	<u>\$ 4,836,307</u>

In October of 2013, the Board approved the sale of property located at 2265 Fair Park Avenue, Los Angeles, California. The net book value of this property (including land, land improvements, and building) was \$223,606. As of the issuance date of the financial statements, the property is currently in escrow.

Note 9 – Real Estate Held for Investment and Future Expansion

Real estate held for investment and future expansion at December 31, 2013, and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,397,803	\$ 1,397,803
Land improvements	722	722
Buildings	150,000	150,000
	<u>1,548,525</u>	<u>1,548,525</u>
Less accumulated depreciation	150,307	150,271
Total	<u>\$ 1,398,218</u>	<u>\$ 1,398,254</u>

The property is contiguous to the current campus and is located at 2221 Fair Park Avenue. It is currently leased to a third party (Note 14).

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 10 – Deferred Costs and Other Assets

Deferred costs and other assets consist of the following at December 31, 2013, and 2012:

	<u>2013</u>	<u>2012</u>
Deferred costs related to 2004 Refunding Revenue Bonds:		
Bond issue costs, net of amortization	\$ 57,797	\$ 72,551
Prepaid insurance costs	92,501	116,117
Deferred costs related to future expansion	<u>297,880</u>	<u>286,840</u>
Total	<u>\$ 448,178</u>	<u>\$ 475,508</u>

Bond issue costs represent costs that were paid or incurred in order to issue the 2004 Refunding Revenue Bonds, such as fees of the financial advisor, rating service, bond counsel, underwriter's discount, and other charges. Additionally, Solheim obtained bond insurance to insure for payment of principal and interest on the bonds. The insurance premium of \$323,940 was prepaid and is expensed over the life of the bond.

Deferred costs related to future expansion include certain research costs, legal and architectural fees incurred in connection with a future project that will expand the size of the current campus and replace some of the existing buildings in a phased construction process. This project will further Solheim's not-for-profit mission and is consistent with the organization's tax exempt status as it will expand Solheim's ability to serve additional seniors and enhance the quality of life for existing residents.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 11 -- Long-Term Debt

The outstanding balances on long-term debt are as follows at December 31, 2013 and 2012:

	2013	2012
Note payable to California Health Facilities Financing Authority (2004 Refunding Revenue Bonds), bearing interest rates ranging from 1.75% to 3.85% per annum, payable semi-annually on May 1 and November 1 of each year. Principal is payable annually through 2017.	\$ 2,240,000	\$ 2,755,000
Note payable to Mission Investment Fund (the "Fund") of the Evangelical Lutheran Church in America paid in monthly installments of \$5,607 including interest at 4.625% per annum are required. The interest rate and payment amounts will be reviewed again by the Fund on November 1, 2016, and 2021. The note is secured by certain real estate purchased by Solheim in 2006 and matures on December 1, 2026.	656,308	692,290
	2,896,308	3,447,290
Less current portion	567,811	551,025
	\$ 2,328,497	\$ 2,896,265

Maturities of long-term debt are as follows:

Years Ending December 31,	
2014	\$ 567,811
2015	589,554
2016	611,375
2017	633,260
2018	45,373
Thereafter	448,935
	\$ 2,896,308

The facilities and gross receipts of Solheim serve as security for the 2004 Refunding Revenue Bonds. Solheim is required to be in compliance with certain financial covenants. The financial covenants include debt service coverage ratio, current ratio, and days cash on hand ratio. Solheim was in compliance with its financial covenants for the year ended December 31, 2013.

**SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

Note 12 – Endowment

Solheim's endowment consists of one fund, which includes a fund designated by the Board of Directors to function as an endowment. In 2002, the Board of Directors combined the previously designated Charity Care Reserve with the Endowment Fund to create the Board Designated Fund for Benevolent Endowment. This fund was designated by the Board of Directors for the purpose of supporting charitable care to residents. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Effective January 1, 2014, the Board of Directors redesigned the fund to not function as an endowment. As a result, the name was changed to the Board Designated Fund for Benevolence.

During 2013, Solheim received communication from the donor of the permanently restricted endowment fund that the intent of their contribution was not to be a permanently restricted endowment. As a result, management reclassified the donor-restricted endowment fund to temporarily restricted net assets.

The primary investment objective of the endowment is preservation of capital. The secondary objective is to provide a reasonable level of total return (income and capital appreciation) to offset the effects of inflation. The third objective is to provide a reasonable level of growth in assets to produce a positive real return. With this long-term objective in mind, the portfolio is invested using the following guidelines:

- Investments in equity securities should not exceed 50% of the total market value of the endowment fund. Acceptable equity investments include: (a) common stocks listed on a major exchange; (b) mutual funds and exchange-traded funds ("ETF") composed of at least 75% stocks; and (c) real estate investment trusts. Up to 20% of the equity portion of the portfolio may be invested in non-U.S. stocks, mutual funds, or ETF's, including emerging markets. No single equity investment is to exceed 10% of the total equity portfolio.
- Investments in fixed income securities should represent at least 40% of the total market value of the endowment fund. Acceptable fixed income investments include: (a) U.S. Treasury and agency securities; (b) corporate bonds and notes rated no lower than "BAA" by a major ratings' source; (c) non-convertible preferred stock; (d) mutual funds and ETF's composed of at least 75% fixed income securities; and (e) certificates of deposit with maturities over 1 year issued by institutions guaranteed by the Federal Deposit Insurance Corporation ("FDIC") and within the authorized limit in any single financial institution. Up to 20% of the fixed income portion of the portfolio may be invested in non-U.S. dollar-denominated fixed income securities, including emerging markets.
- Investments in cash equivalents should be at least 10% and should not exceed 30% of the total market value of the endowment fund. Cash equivalent securities are generally fixed income instruments with maturities of 1 year or less and can include: (a) money market funds composed of at least 50% U.S. Treasury securities; (b) U.S. Treasury bills; and (c) certificates of deposit issued by institutions guaranteed by the FDIC and within the authorized limit in any single financial institution. The purpose of the cash equivalents' portion of the portfolio is to provide liquidity for both anticipated and unanticipated cash needs and to hedge against volatility in declining market conditions.
- Equity, fixed income, and cash equivalent securities not described above may be recommended for purchase by Solheim's investment advisors; however, the purchase must be discussed with and approved by Solheim's investment committee prior to investment.

SOLHEIM LUTHERAN HOME
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 16 – Concentrations

Solheim maintains its unrestricted cash deposits with one financial institution. The deposits with the financial institution are insured up to \$250,000 with the FDIC. At December 31, 2013, Solheim's uninsured cash balance totaled approximately \$332,000.

Approximately 21% of Solheim's total operating revenue for the years ended December 31, 2013, and 2012 were funded pursuant to federal, state, and local assistance programs, the continuation of which is dependent upon government policies. Revenues received under these programs are partially based upon cost reimbursement principles that are subject to government audit.

Note 17 – Subsequent Events

Management has evaluated for subsequent events through April 25, 2014, the issuance date of the financial statements. As noted in Notes 1 and 12, effective January 1, 2014, the Board of Directors redesigned the Board Designated Fund for Benevolent Endowment to not function as an endowment.

SOLHEIM LUTHERAN HOME
 SCHEDULE OF DIRECT OPERATING EXPENSES BY DEPARTMENT
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Skilled Nursing	Residential, Assisted Living, Memory Care	Dietary	Maintenance	Activities	Ancillary Services and Parish Nurse Program	Laundry	Housekeeping	In-service Education	Social Services	Administration	Total 2013	Total 2012
Salaries	\$ 1,649,905	\$ 1,031,030	\$ 582,127	\$ 225,092	\$ 348,396	\$ 20,277	\$ 111,094	\$ 107,285	\$ 59,001	\$ 40,971	\$ 837,500	\$ 5,012,678	\$ 5,464,863
Vacation, holiday and benefits	186,069	120,294	68,724	25,825	35,432	-	17,240	11,152	6,465	4,853	84,854	560,908	621,885
Insurance-group medical and life	197,073	132,880	89,337	19,703	36,682	-	14,040	13,344	6,240	1,330	44,095	554,724	546,802
Retirement plan	143,046	106,531	54,419	24,602	40,413	-	23,767	13,334	1,152	5,817	58,536	471,617	467,340
Payroll taxes	141,867	96,006	53,532	29,594	24,498	1,551	9,817	9,082	5,027	3,505	72,481	446,960	479,592
Food purchases	-	-	400,977	-	-	-	-	-	-	-	-	400,977	393,114
Professional services	9,325	-	33,277	-	4,325	-	-	-	-	-	344,839	391,766	203,740
Supplies and replacements	81,885	49,154	62,409	40,636	7,074	-	27,227	51,226	-	2,925	36,417	338,953	395,385
Workers' compensation insurance	94,258	108,863	35,896	13,215	27,906	1,042	7,696	9,710	3,378	2,353	3,257	307,574	290,244
Utilities	-	-	-	297,540	-	-	-	-	-	-	-	224,746	245,382
Medical supplies and services	35,617	3,375	-	-	9,086	218,416	-	-	-	-	215,660	203,628	249,781
Insurance-other	-	-	-	-	-	203,628	-	-	-	-	117,905	111,395	104,447
Therapy	-	-	-	-	-	-	-	-	-	-	-	108,560	161,933
Advertising and promotion	-	-	-	-	-	-	-	-	-	-	-	87,171	96,052
Outside services	-	-	-	-	-	-	-	-	-	-	-	75,456	65,377
Maintenance-general	-	-	12,190	108,560	-	-	8,055	-	-	-	-	62,444	59,427
Maintenance-contractual	-	-	-	66,926	-	-	-	-	-	-	-	56,586	70,519
Development cost	-	-	-	-	-	-	-	-	-	-	-	32,778	45,679
Dues and fees	480	-	-	-	1,301	-	-	-	-	-	-	28,150	41,058
Other direct expenses	18,861	-	2,976	128	2,492	21,781	244	-	1,005	-	-	13,184	6,684
Residents' expense	-	-	-	-	10,997	28,150	-	-	-	-	-	10,026	12,355
Barber and beauty shop	-	-	-	-	-	-	-	-	-	-	-	8,520	11,536
Publicity and public relations	-	-	-	-	1,747	2,122	-	-	-	-	-	6,157	9,173
Travel	-	-	-	-	8,520	-	-	-	-	-	-	8,416	6,951
Telephone	-	-	-	-	1,747	-	-	-	-	-	-	7,506	7,427
Resident transportation expenses	-	-	-	-	1,525	(24,991)	-	-	1,996	30	-	(24,991)	(35,056)
Postage	-	-	623	134	-	-	-	-	-	-	-	(38,185)	53,727
Education and training	-	-	-	-	-	-	-	-	-	-	-	-	-
Reimbursement from LHMF	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for doubtful accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
2013 Total Direct Costs	\$ 2,558,386	\$ 1,648,133	\$ 1,396,487	\$ 851,955	\$ 560,394	\$ 471,976	\$ 219,180	\$ 215,133	\$ 84,264	\$ 61,784	\$ 2,095,881	\$ 10,163,573	\$ 10,683,763
2012 Total Direct Costs	\$ 2,678,663	\$ 1,904,144	\$ 1,430,889	\$ 956,563	\$ 609,763	\$ 557,425	\$ 219,468	\$ 261,886	\$ 81,972	\$ 63,833	\$ 1,919,157	\$ 10,683,763	\$ 10,683,763

See independent auditor's report.

R E C E I V E D
APR 30 2014

CONTINUING CARE
CONTRACTS BRANCH

Continuing Care Reserve Report Schedules

SOLHEIM LUTHERAN HOME

For the Year Ended December 31, 2013

MARTIN WERBELOW LP
CERTIFIED PUBLIC ACCOUNTANTS
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APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Solheim Lutheran Home

We have audited the accompanying continuing care reserve report schedules of Solheim Lutheran Home ("Solheim") which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 ("Schedules") as of and for the year ended December 31, 2013;

Management's Responsibility for the Reports

Management is responsible for the preparation and fair presentation of these Schedules in accordance with the 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 Schedules that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedules 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 Schedules are free of material misstatement.

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

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 Schedules present fairly, in all material respects, the continuing care reserve requirements of Solheim as of December 31, 2013, in accordance with the provisions of the California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the Schedules. The Schedules were prepared by Solheim on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the provisions of the California Health and Safety Code Section 1792. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information of the Board of Directors and management of Solheim and the California Department of Social Services and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

April 25, 2014

 Martin Werbelow CPA

**FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/2/2004	\$515,000	\$101,287		\$616,287
2	11/13/2006	\$35,982	\$31,297		\$67,279
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$132,584	\$0	\$683,566

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

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

PROVIDER: SOLHEIM LUTHERAN HOME

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

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

(Transfer this amount to Form 5-3, Line 2)

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

PROVIDER: SOLHEIM LUTHERAN HOME

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$683,566
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$683,566

PROVIDER: SOLHEIM LUTHERAN HOME

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	<u>\$10,931,648</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	<u>\$132,584</u>
	b. Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>
	c. Depreciation	<u>\$580,491</u>
	d. Amortization	<u>\$38,370</u>
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$6,018,643</u>
	f. Extraordinary expenses approved by the Department	
3	Total Deductions	<u>\$6,770,088</u>
4	Net Operating Expenses	<u>\$4,161,560</u>
5	Divide Line 4 by 365 and enter the result.	<u>\$11,402</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$855,115</u>

PROVIDER: SOLHEIM LUTHERAN HOME
COMMUNITY: SOLHEIM LUTHERAN HOME

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: SOLHEIM LUTHERAN HOME

Fiscal Year Ended: 12/31/2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2013 and are in compliance with those requirements.

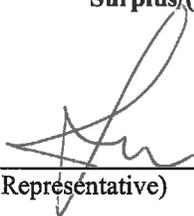
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$683,566
[2] Operating Expense Reserve Amount	\$855,115
[3] Total Liquid Reserve Amount:	\$1,538,681

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$108,654	\$401,358
[5] Investment Securities		\$985,358
[6] Equity Securities		\$1,678,193
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	\$730,879	(not applicable)
[10] Other:		
(describe qualifying asset)		
Total Amount of Qualifying Assets	\$839,533 [12]	\$3,064,909
Reserve Obligation Amount: [13]	\$683,566 [14]	\$855,115
Surplus/(Deficiency): [15]	\$155,967 [16]	\$2,209,794

Signature:



(Authorized Representative)

Date: 25-Apr-14

Director of Finance & CFO

(Title)

FORM 5-5 - ADDITIONAL DISCLOSURE

■ **Description of all Reserves maintained**

	December 31	
	2013	2012
<u>Funds Held by Trustees</u>		
<i>2004 Refunding Revenue Bond Funds:</i>		
Payment of interest	\$15,851	\$21,723
Revenue fund	\$1,651	\$0
Payment of principal	\$88,333	\$85,833
Bond reserve fund	\$733,698	\$733,710
	\$839,533	\$841,266
Less: Held for current debt payments	\$544,908	\$532,869
	\$294,625	\$308,397
<u>Board Designated Funds</u>		
Benevolent	\$633,732	\$512,223
Capital replacement	\$50,192	\$50,181
	\$683,924	\$562,404
<u>Other Limited Uses</u>		
Temporarily Restricted Fund	\$20,497	\$2,364
Restricted Fund	\$0	\$8,597
	\$20,497	\$10,961
Total Limited Use Assets	\$999,046	\$881,762
Status: These funds are fully funded.		

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

- 2004 Bond Project funds are reserved to finance the construction, renovation, remodeling, and other capital projects. \$616,287 were expended during the fiscal year for the debt service.
- The Benevolent fund will be used to support charitable care for residents.
- The Capital Replacement fund is set aside to comply with the terms of the 2004 Refunding Revenue Bonds.
- The Temporarily Restricted fund is set aside for acquisition of facilities and equipment, charity care for residents, activity and other programs for the residents.

■ **Per Capita Cost of Operations**

Total operating Expenses (Form 5-4, Line 1)	\$10,931,648
Mean number of all residents (Form 1-1, Line 10)	152
Average Per Capita Cost Annual	\$71,919
Divided by Days Per Year	365
Average Per Capita Cost Daily	\$197

PROVIDER: SOLHEIM LUTHERAN HOME

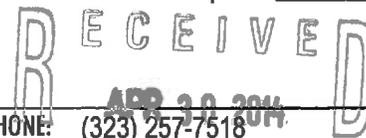
TWO-WAY RECONCILIATION

Line		TOTAL
1	Revenues received during the fiscal year for services to persons who did not have a continuing care contract reported on Form 5-4, Line 2(e)	<u>\$6,018,643</u>
2	Revenues received during the fiscal year for services to persons who did have a continuing care contract	<u>\$4,326,231</u>
3	Revenues received from residents for monthly services reported on Statement of Cash Flows - Direct Method	<u><u>\$10,344,874</u></u>

PROVIDER: SOLHEIM LUTHERAN HOME

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

Date Prepared: 4/28/14



FACILITY NAME: SOLHEIM LUTHERAN HOME
 ADDRESS: 2236 MERTON AVE, LOS ANGELES, CA ZIP CODE: 90041 PHONE: (323) 257-7518
 PROVIDER NAME: SOLHEIM LUTHERAN FACILITY OPERATOR: SAME CONTINUING CARE CONTRACTS BRANCH
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: LUTHERAN
 YEAR OPENED: 1923 # OF ACRES: 3 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 1.5

NUMBER OF UNITS:	RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO:	<u>19</u>	ASSISTED LIVING: <u>36</u>
APARTMENTS — 1 BDRM:	<u>6</u>	SKILLED NURSING: <u>76</u>
APARTMENTS — 2 BDRM:	_____	SPECIAL CARE: <u>45</u>
COTTAGES/HOUSES:	_____	DESCRIBE SPECIAL CARE: _____
RLU OCCUPANCY (%) AT YEAR END:	<u>68.85</u>	MEMORY CARE _____

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

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

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

RANGE OF ENTRANCE FEES: \$ 24,000 TO \$ 104,000 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Discounted rates for SNF residents with continuing care contract

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

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Attends all Board meetings and presents a report regarding residents activities and other resident's concerns if any.

FACILITY SERVICES AND AMENITIES

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

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

PROVIDER NAME: SOLHEIM LUTHERAN

<u>CCRCs</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$10,589,935	\$10,465,116	\$11,224,119	\$10,455,560
LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest)	\$10,151,881	\$10,327,523	\$10,727,780	\$10,214,461
NET INCOME FROM OPERATIONS	\$438,054	\$137,593	\$496,339	\$241,099
LESS INTEREST EXPENSE	\$144,323	\$130,067	\$114,829	\$98,326
PLUS CONTRIBUTIONS	\$192,676	\$203,437	\$148,736	\$1,444,342
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	\$94,665	-\$19,116	\$42,756	\$352,536
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	\$581,072	\$191,847	\$573,002	\$1,939,651
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	\$601,437	\$439,483	\$699,623	\$651,030

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
CHFFA	\$2,240,000	3.45	12/01/04	11/01/17	13 YEARS
Mission Investment Func	\$656,308	4.63	11/13/06	11/12/26	20 YEARS

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

	2011	2012	2013
DEBT TO ASSET RATIO	29.6%	24.8%	17.0%
OPERATING RATIO	99.9%	95.9%	98.7%
DEBT SERVICE COVERAGE RATIO	1.52	2.19	3.58
DAYS CASH-ON-HAND RATIO	107	117	132

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

	2010	%	2011	%	2012	%	2013
STUDIO	\$2,500	2.0	\$2,550	3.0	\$2,625	3.0	\$2,704
ONE BEDROOM	\$3,000	2.0	\$3,060	3.0	\$3,125	3.0	\$3,219
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING	\$3,800	2.0	\$3,875	3.0	\$3,990	3.0	\$4,110
SKILLED NURSING	\$210	2.0	\$214	3.0	\$220	3.0	\$227
SPECIAL CARE	\$4,800	2.0	\$4,900	3.0	\$5,045	3.0	\$5,196

COMMENTS FROM PROVIDER:

Rates shown above for Skilled Nursing are daily not monthly.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>2,704 – 3,219</u>	<u>4,110–5,196</u>	<u>6,905</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: January 1, 2013
 (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: SOLHEIM LUTHERAN HOME
COMMUNITY: _____

SOLHEIM LUTHERAN HOME

2013 Annual Report

EXPLANATION FOR THE INCREASE MONTHLY FEES, ITEM 5, FORM 7-1

Data used in determining rate adjustments:

- 2012 Actual Monthly Care Fees charged
- 2013 Projected Revenues and Expenses (9 months actual, 3 months estimated)
- 2013 Projected occupancy by pay source by level of care
- 2013 Projected staffing levels by department and costs
- 2013 Projected non-staff expense
- 2013 Percentage increase in monthly Social Security payments to residents if any
- 2012 Actual and 2013 projected interest rate paid on savings

The Corporation is required by its loan documents to charge fees that are sufficient to meet a specified net income to debt service ratio. After the budgeting process was completed for projected expenses, it was determined that the rates shown on line 1 were necessary to achieve the specified ratio and to have a somewhat better than a break-even budget for 2013

Residential fee increases ranged from \$79 to \$94 per month

Assisted living fees increases ranged from \$120 to \$151 per month

Skilled nursing fees were increased by \$7 per day (\$212.92 per month as an average)

KEY INDICATORS REPORT

SOLHEIM LUTHERAN HOME

Date Prepared: 6/9/2014

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

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

85.24% 84.20% 82.30% 82.00% 79.20%

86.50% 86.50% 86.50% 86.50% N/A

↑

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)

-0.43% 3.51% -0.70% 3.90% 1.11%

3.79% 3.49% 3.18% 2.88%

↑

3. Net Operating Margin - Adjusted (%)

6.87% 8.75% 4.01% 9.59% 6.94%

10.45% 9.72% 9.28% 8.85%

↓

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)

\$3,346 \$3,351 \$3,079 \$3,406 \$3,699

\$4,373 \$4,805 \$5,513 \$6,472

↑

5. Days Cash on Hand (Unrestricted)

123 120 107 117 130

139 149 166 189

↑

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)

\$2,156 \$2,157 \$2,048 \$1,965 \$1,934

\$2,384 \$2,550 \$2,715 \$2,880

N/A

7. Net Annual E/F proceeds (\$000)

\$767 \$601 \$440 \$700 \$651

\$880 \$840 \$840 \$840

N/A

8. Unrestricted Net Assets (\$000)

\$3,503 \$4,231 \$4,492 \$5,128 \$7,310

\$8,226 \$8,742 \$9,260 \$9,775

N/A

9. Annual Capital Asset Expenditure (\$000)

\$210 \$494 \$431 \$311 \$503

\$400 \$400 \$400 \$400

N/A

10. Annual Debt Service Coverage Revenue Basis (x)

0.28 0.92 0.42 1.11 2.52

1.07 1.04 7.96 9.80

↑

11. Annual Debt Service Coverage (x)

1.37 1.86 1.1 2.19 3.48

2.32 2.24 17.49 21.93

↑

12. Annual Debt Service/Revenue (%)

6.62% 5.60% 5.70% 5.38% 5.31%

5.46% 5.32% 0.65% 0.50%

↓

13. Average Annual Effective Interest Rate (%)

2.72% 3.02% 3.12% 3.28% 3.28%

3.63% 3.73% 3.79% 0.00%

↓

14. Unrestricted Cash & Investments/ Long-Term Debt (%)

74.67% 84.09% 89.45% 110.39% 158.84%

387.79% 972.20% 1227.92% 1612.22%

↑

15. Average Age of Facility (years)

16.81 17.24 17.25 17.67 18.19

17.99 17.28 18.26 18.3

↓

Chief Executive Officer Signature

Forecast

JUN 09 2014

CONTINUING CARE
INDICATOR
2017 CONTRACTS
BY YEAR

