

ANNUAL REPORT
CHECKLIST
for
FISCAL YEAR ENDED:

RECEIVED
APR 30 2014

CONTINUING CARE
CONTRACTS BRANCH

PROVIDER: Solvang Lutheran Home, Inc

FACILITY(IES): _____

CONTACT PERSON: Ruthie Kitzmann

TELEPHONE NO.: (805) 688-3263

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

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

- a ✓ This cover sheet.
- b ✓ Annual Provider Fee in the amount of: \$ 6,671⁰⁰
 - ✓ If applicable, late fee in the amount of: \$ _____
- c ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- d ✓ Evidence of the provider's fidelity bond.
- e ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- f ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- g ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (total of four (4) copies to be included)
 - (1) _____
 - (2) Form 1-1 Resident Population
 - (3) Form 7-1 Report on CCRC Monthly Service Fee
 - (4) Key Indicator's Report



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APR 30 2014

Solvang Lutheran Home, Inc.

CONTINUING CARE
CONTRACTS BRANCH

Healthy Retirement Living

April 28, 2014

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

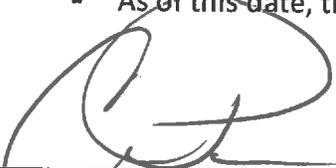
Attention: Community Care Licensing

Re: CEO Statement for FY2013

With regard to the Solvang Lutheran Home's FY 2013 Annual Report, the following statements are made:

I hereby certify that:

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



Christopher W. Parker,
Executive Director

Atterdag Village of Solvang - Santa Ynez Valley Recovery Residence



636 Atterdag Road Solvang, California 93463 tel: 805.688.3263 fax: 805.688.8574



SOLVLU-01

CCOLLINS

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

2/24/2014

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.

CONTINUING CARE

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 License # 0797015 Lewis & Assoc. Ins. Brokers, inc. 700 W. Center Avenue Visalia, CA 93291	CONTACT NAME: Connie Collins
	PHONE (A/C, No., Ext): (559) 733-7272 FAX (A/C, No.): (559) 733-5612
	E-MAIL ADDRESS: conniec@since1927.com
INSURER(S) AFFORDING COVERAGE	
INSURER A: GuideOne Insurance	NAIC # 15032
INSURER B:	
INSURER C:	
INSURER D:	
INSURER E:	
INSURER F:	

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

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

INSR LTR	TYPE OF INSURANCE	ADDL/SUBR INSD WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR		1404411	03/01/2014	03/01/2015	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ 3,000,000
GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:						
A	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS		1774369	03/01/2014	03/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE		1404-412	03/01/2014	03/01/2015	EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$ 1,000,000 DED <input checked="" type="checkbox"/> RETENTION \$ 2,500
WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) <input type="checkbox"/> Y/N N/A If yes, describe under DESCRIPTION OF OPERATIONS below						
A	Professional Liabil		1404411	03/01/2014	03/01/2015	Aggregate 3,000,000
A	Professional Liabil		1404411	03/01/2014	03/01/2015	Occurrence 1,000,000

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

CERTIFICATE HOLDER

CANCELLATION

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

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

AUTHORIZED REPRESENTATIVE

Connie Collins

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FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	101
[2]	Number at end of fiscal year	104
[3]	Total Lines 1 and 2	205
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	102.5
All Residents		
[6]	Number at beginning of fiscal year	127
[7]	Number at end of fiscal year	126
[8]	Total Lines 6 and 7	253
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	126.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.81

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$8,944,876
[a]	Depreciation	\$587,022
[b]	Debt Service (Interest Only)	\$124,958
[2]	Subtotal (add Line 1a and 1b)	\$711,980
[3]	Subtract Line 2 from Line 1 and enter result.	\$8,232,896
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	81%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$6,670,924
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$6,671

PROVIDER Solvang Lutheran Home, Inc.
COMMUNITY Solvang Lutheran Home

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APR 30 2014
CONTINUING CARE
CONTRACTS BRANCH

SOLVANG LUTHERAN HOME, INC.
AND AFFILIATE
DECEMBER 31, 2013 AND 2012
COMBINED FINANCIAL STATEMENTS



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

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

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

RECEIVED
APR 30 2014

CONTINUING CARE
CONTRACTS BRANCH

April 11, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Solvang Lutheran Home, Inc. and Affiliate which comprise the combined statement of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in

order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Solvang Lutheran Home, Inc. and Affiliate as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in accordance 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 combined financial statements as a whole. The accompanying combining information on pages 19-22 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Bartlett, Pugh + Wolf, LLP

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 1,212,982	\$ 152,115
Restricted cash (Note 2)	492,758	497,700
Accounts receivable (Note 2)	448,584	484,627
Other assets	76,055	132,452
Total current assets	<u>2,230,379</u>	<u>1,266,894</u>
Assets Whose Use is Limited (Note 4)	<u>-</u>	<u>684,127</u>
Facilities and equipment, net (Note 5)	<u>14,467,269</u>	<u>14,040,779</u>
Other Assets:		
Investments (Note 3)	5,223,629	4,295,995
Debt issuance costs, net of accumulated amortization (Note 6)	46,949	92,375
Income producing real estate (Note 2)	296,000	296,000
Total other assets	<u>5,566,578</u>	<u>4,684,370</u>
Total assets	<u>\$ 22,264,226</u>	<u>\$ 20,676,170</u>

See accompanying notes

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2013 and 2012**

	2013	2012
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 800,877	\$ 878,030
Bond interest payable	-	46,500
Current portion of notes payable (Note 7)	510,785	124,455
Current portion of bonds payable (Note 8)	-	280,000
Total current liabilities	1,311,662	1,328,985
Long Term Liabilities:		
Unamortized accommodation fees (Note 2)	2,694,403	2,609,773
Notes payable to residents (Note 7)	400,000	613,138
Notes payable, net of current portion (Note 7)	2,479,451	-
Bonds payable, net of current portion (Note 8)	-	2,055,996
Total long term liabilities	5,573,854	5,278,907
Total liabilities	6,885,516	6,607,892
Net Assets:		
Unrestricted:		
Board designated (Note 10)	5,141,588	5,703,289
Undesignated	10,111,396	8,234,321
Total unrestricted	15,252,984	13,937,610
Temporarily restricted (Note 11)	125,726	130,668
Total net assets	15,378,710	14,068,278
Total liabilities and net assets	\$ 22,264,226	\$ 20,676,170

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Changes in Unrestricted Net Assets		
Operating Revenues:		
Skilled nursing facility	\$ 4,068,066	\$ 4,065,818
Residential care facility	3,579,322	3,235,941
Ancillary services	668,539	666,364
Thrift shop	100,347	91,468
Accommodation fee amortization	773,370	604,080
Interest income	166,440	182,173
Contributions and grants	511,995	139,376
Other income	105,934	142,186
Total operating revenues	<u>9,974,013</u>	<u>9,127,406</u>
Operating Expenses:		
Health services	3,182,141	3,051,320
Dietary services	1,817,648	1,776,462
Housekeeping and laundry	675,891	675,639
Social services	358,480	319,786
Thrift shop	78,798	77,640
Administration	1,020,501	1,030,703
Plant operations and utilities	985,480	915,834
Interest expense	124,958	184,015
Depreciation and amortization	594,217	396,430
Insurance and taxes	106,762	112,224
Total operating expenses	<u>8,944,876</u>	<u>8,540,053</u>
Income from operations	1,029,137	587,353
Non-operating revenues and other gains (losses)		
Net gain on investments	286,313	206,108
Gain on sale of equipment	10,000	-
Loss on debt extinguishment	(100,595)	-
Net assets released from restrictions	90,519	1,582,885
Increase in unrestricted net assets	<u>1,315,374</u>	<u>2,376,346</u>
Unrestricted net assets, beginning of year	<u>13,937,610</u>	<u>11,561,264</u>
Unrestricted net assets, end of year	<u>15,252,984</u>	<u>13,937,610</u>
Changes in Temporarily Restricted Net Assets		
Contributions and grants	85,000	90,645
Interest income	577	-
Net assets released from restrictions	(90,519)	(1,582,885)
Decrease in temporarily restricted net assets	<u>(4,942)</u>	<u>(1,492,240)</u>
Temporarily restricted net assets, beginning of year	<u>130,668</u>	<u>1,622,908</u>
Temporarily restricted net assets, end of year	<u>125,726</u>	<u>130,668</u>
Total net assets, end of year	<u>\$ 15,378,710</u>	<u>\$ 14,068,278</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT 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	\$ 8,126,403	\$ 7,708,441
Community programs	288,230	240,339
Contributions and collection of pledges receivable	596,995	242,104
Investment income received	166,440	182,173
Processing fees	58,500	73,800
Net accommodation fees	918,000	957,250
Rental income	44,444	43,150
Reimbursements for services to non-residents	37,684	40,559
Other income	3,567	25,236
Cash paid to suppliers and employees	(8,154,121)	(7,804,373)
Interest paid	(171,458)	(175,360)
	<u>1,914,684</u>	<u>1,533,319</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Purchase of investments	(4,759,487)	(883,612)
Sales of investments	4,118,166	220,322
Proceeds from sale of equipment	10,000	-
Facilities and equipment purchases	(1,165,848)	(2,507,031)
Decrease (increase) in assets whose use is limited	684,127	(5,140)
	<u>(1,113,042)</u>	<u>(3,175,461)</u>
Net cash used by investing activities		
Cash Flows from Financing Activities:		
Proceeds from issuance of long term debt	3,200,000	-
Bond issuance costs	(48,360)	-
Repayment of notes payable	(547,357)	(70,600)
Bond principal payments	(2,350,000)	(265,000)
	<u>254,283</u>	<u>(335,600)</u>
Net cash provided (used) by financing activities		
Increase (decrease) in cash and cash equivalents	1,055,925	(1,977,742)
Cash and cash equivalents, beginning of year	<u>649,815</u>	<u>2,627,557</u>
Cash and cash equivalents, end of year	<u>\$ 1,705,740</u>	<u>\$ 649,815</u>

See accompanying notes

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

Note 1 - Organization and Operations

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

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

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

Note 2 - Summary of Significant Accounting Policies

A) Basis of Accounting

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

B) Use of Estimates

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Cash and Cash Equivalents

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

D) Basis of Accounting for Receivables

Accounts receivable are carried at their estimated collectible amount. Management periodically evaluates receivables for collectability on a specific-account basis and records an allowance for any amounts estimated to be uncollectible. The allowance for uncollectible accounts at December 31, 2013 and 2012 was \$0 and \$19,143, respectively.

E) Investments

The Home reports investments in marketable securities at fair value and includes realized and unrealized gains and losses in the statement of activities and changes in net assets. See Note 3 for additional information regarding fair value.

F) Facilities and Equipment

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

G) Debt Issue Costs

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

H) Income Producing Real Estate

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

I) Accommodation Fees

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

Accommodation fees are fully refundable if a resident terminates their contract during the first 90 days of residency. If a resident terminates their contract after 90 days but before 365 days, they are entitled to a 75% refund of the accommodation fee paid. Upon the death of a resident between their first and second years of residency, their estate is entitled to a refund of 50% of the accommodation fee. No amounts have been recorded as refundable fees because management does not believe that a significant portion of accommodation fees will be refunded.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

J) Obligation to Provide Future Services

The Home annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from accommodation fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from accommodation fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5 percent.

As of December 31, 2013 and 2012 there was no accruable obligation to provide future services.

K) Medical Revenue

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

L) Donor Restrictions

The Home reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

M) Ancillary Services

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

N) Income Taxes

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

O) Income from Operations

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

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

Note 3 – Fair Value Measurements

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

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

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

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

During the years ended December 31, 2013 and 2012, there were no changes to the Home's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

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

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

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

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 3 – Fair Value Measurements (Continued)

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

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

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

	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Investments:				
Certificates of deposit	\$ 717,068	\$ 717,068		
Exchange traded funds:				
Immediate term bond	1,242,116	1,242,116		
Short term bond	214,932	214,932		
Large blend	143,114	143,114		
Large growth	145,437	145,437		
Large value	276,608	276,608		
Total exchange traded funds	2,022,207	2,022,207		
Mutual Funds:				
Immediate term bond	175,462	175,462		
World bond	218,805	218,805		
High yield bond	222,669	222,669		
Commodities broad basket	129,140	129,140		
Large blend	287,118	287,118		
Large growth	436,259	436,259		
Large value	479,827	479,827		
Mid-cap blend	234,974	234,974		
Mid-cap growth	97,694	97,694		
Global real estate	128,611	128,611		
Money market mutual funds	73,795	73,795		
Total mutual funds	2,484,354	2,484,354		
Total assets at fair value	\$ 5,223,629	\$ 5,223,629	\$	\$

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

Note 3 – Fair Value Measurements (Continued)

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

Note 4 - Assets Whose Use is Limited

As a requirement of the 1996 bond issue (see Note 8), certain funds related to the bond issue were controlled by the bond trustee at December 31, 2012. These funds consisted of debt service reserves, capitalized interest funds, and insurance funds. The bonds were fully repaid during 2013 and these reserves are no longer maintained.

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

Note 5 - Facilities and Equipment

Facilities and equipment consist of the following at December 31:

	2013	2012
Facilities and equipment:		
Land	\$ 873,290	\$ 873,290
Buildings and improvements	19,653,844	12,947,255
Furnishings and equipment	4,027,020	3,984,260
Vehicles	332,003	283,089
Construction in progress	575,645	6,383,895
Total facilities and equipment	25,461,802	24,471,789
Accumulated depreciation:		
Buildings and improvements	7,142,826	6,670,367
Furnishings and equipment	3,575,152	3,488,646
Vehicles	276,555	271,997
Less accumulated depreciation	10,994,533	10,431,010
Total facilities and equipment, net	\$ 14,467,269	\$ 14,040,779

All facilities and equipment were pledged as collateral on the bonds payable at December 31, 2012 and note payable to Banc of America Public Capital Corp at December 31, 2013.

Note 6 - Debt Issuance Costs

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

	2013	2012
Debt issuance costs	\$ 48,360	\$ 317,501
Less accumulated amortization	(1,411)	(225,126)
Total net debt issuance costs	\$ 46,949	\$ 92,375

Amortization expense was \$7,195 and \$15,864 for the years ended December 31, 2013 and 2012, respectively. Estimated future amortization expense is as follows for the years ended December 31:

2014	\$	8,060
2015		8,060
2016		8,060
2017		8,060
2018		8,060
Thereafter		6,649
	\$	46,949

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

Note 7 - Notes Payable

Notes Payable to Residents

In April of 2011, the Home issued a note to a resident in the amount of \$400,000, which requires quarterly interest only payments at 5% per annum. This note is unique in that in the event of death of the payee the note shall be forgiven but if the payee outlives his financial resources the Home would commence paying the expense for his care, housing and services. There is no formal arrangement to repay the principal. The proceeds are to be used for the Assisted Living Building/Cottage Project. The entire balance of this note is included in the long term portion of notes payable on the statement of financial position. Unspent proceeds in the amount of \$367,032 were included in restricted cash on the balance sheet for the years ending December 31, 2013 and 2012.

The Home has financed construction and refurbishing of its facilities through unsecured notes payable issued to various residents of the Home with principal payable within 180 days from demand, after March 2011. The interest rate on these notes was 5% through December 31, 2011 and was reduced to 3.5% effective in January 2012. The balance of these notes was \$0 and \$75,000 at December 31, 2013 and 2012, respectively. The entire balance was included in the current portion of notes payable on the statement of financial position at December 31, 2012, as they were payable upon demand beginning in 2011. The balance of these notes was paid off during 2013.

In addition, \$458,000 in ten year notes were issued with interest payments at 6% payable for the first two years, and interest and principal payments due over the following eight years. The balances of these notes were \$0 and \$262,593 at December 31, 2013 and 2012, respectively. The balance of these notes was paid off during 2013.

Interest expense on all notes payable to residents was \$28,227 and \$45,950 for the years ended December 31, 2013 and 2012, respectively.

Note Payable to Financial Institution

In July of 2013, the Home entered into an agreement with Banc of America Public Capital Corp to lease funds in the amount of \$3,200,000. The funds were used to pay off various notes payable, supplement expenditures for the Home's Master Plan Project, and to pay off the 1996 Certificates of Participation (Note 8). Monthly payments in the amount of \$47,266 are due from August 2013 through July 2019, including interest at 2.064%. The balance of this obligation was \$2,990,236 at December 31, 2013. Related interest expense was \$26,566 for the year ended December 31, 2013.

The annual maturities of the Banc of America Public Capital Corp note payable for the next five years and thereafter at December 31, 2013 are as follows:

2014	\$	510,785
2015		521,334
2016		532,101
2017		543,091
2018		554,307
Thereafter		328,618
	\$	<u>2,990,236</u>

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

Note 8 - Bonds Payable

During 1996, the Home refinanced its bonds payable, at a lower interest rate, through the issuance of new bonds. These bonds were extinguished using the funds from the note payable to Banc of America Public Capital Corp issued in July 2013 (Note 7). Bonds payable were summarized as follows:

	2013	2012
\$5,210,000 certificates of participation dated August 1, 1996, with interest at 3.85% to 6% due in varying amounts from April 1, 1997 through April 2019.	\$ -	\$ 2,350,000
Less unamortized discount	-	(14,004)
	-	2,335,996
Less current portion	-	(280,000)
	\$ -	\$ 2,055,996

The bonds were collateralized by all facilities, equipment and gross revenues of the Home. Pursuant to the loan agreement, the Home was required to comply with certain restrictive financial and other covenants, the most restrictive of which include the maintenance of certain required funds (see Note 4), limitations on acquisition of properties, limitations on additional indebtedness, and maintenance of service rates and charges so that cash flow available for debt services is at least 120 percent of annual debt service as defined in the loan agreements.

Interest expense on the 1996 bonds was \$70,165 and \$138,065 for the years ended December 31, 2013 and 2012, respectively.

Note 9 - Line of Credit

During 2012, the Home obtained a \$500,000 line of credit with Montecito Bank & Trust. The line of credit, which matures May 31, 2014, has an interest rate of 2.8% and is secured by a \$500,000 certificate of deposit held at Montecito Bank & Trust. No amounts were drawn on the line of credit at December 31, 2013 or 2012.

Note 10 - Board Designated Net Assets

At December 31, 2013 and 2012, the Board of Directors had designated a portion of the unrestricted net assets for the following purposes:

	2013	2012
Endowment Fund of the Solvang Lutheran Home, Inc.	\$ 4,844,819	\$ 4,431,175
School property project	-	860,000
Debt retirement	-	360,000
Capital improvements	296,769	52,114
Total designated net assets	\$ 5,141,588	\$ 5,703,289

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

Note 11 - Temporarily Restricted Net Assets

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

	2013	2012
Purchase of equipment	\$ 125,726	\$ 130,668
Total temporarily restricted net assets	<u>\$ 125,726</u>	<u>\$ 130,668</u>

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

	2013	2012
Purchase of equipment	\$ 90,519	\$ 27,940
Construction of Recovery Residence	-	1,110,800
Released by donor	-	444,145
	<u>\$ 90,519</u>	<u>\$ 1,582,885</u>

Note 12 - Supplemental Disclosure of Cash Flow Information

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

	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,310,432	\$ 884,106
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	594,217	396,430
Amortization of bond discount	-	2,155
Net accommodation fees	918,000	957,250
Amortization of unearned entrance fees	(773,370)	(604,080)
Loss on debt extinguishment	100,595	-
Net gain on investments	(286,313)	(206,108)
Gain on sale of equipment	(10,000)	-
(Increase) decrease in:		
Accounts receivable	36,043	(70,252)
Pledges receivable		12,083
Other assets	56,397	(1,134)
Increase (decrease) in:		
Accounts payable and accrued expenses	(31,317)	162,869
Net cash provided by operating activities	<u>\$ 1,914,684</u>	<u>\$ 1,533,319</u>

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

Note 13 - Malpractice Insurance

The Home maintains professional liability insurance on an occurrence basis. There were no claims outstanding at December 31, 2013.

Note 14 - Employee Benefit Plans

Effective May 15, 2012, the Home adopted a 457 Top Hat Plan, which is an eligible deferred compensation plan within the meaning of Section 457(b) of the Internal Revenue Code. The primary purpose of the Plan is to permit a select group of management or highly compensated employees to defer a portion of current compensation until death, retirement, severance from employment, or other event, in accordance with the applicable sections of the Internal Revenue Code. During 2013 and 2012, one employee participated in this plan. The Home did not make contributions to the plan in 2013 or 2012.

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

Note 15 - Uncertain Tax Positions

In 2009, the Home adopted the accounting for uncertainty in income taxes provisions contained within accounting principles generally accepted in the United States of America ("GAAP"). This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Home's financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. Management evaluated the Home's tax positions as of December 31, 2013 and concluded that the Home had taken no uncertain tax positions that require adjustment to or disclosure in the financial statements to comply with the provisions of this guidance. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Home's informational returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Home is no longer subject to income tax examinations by tax authorities for years prior to 2010 for federal purposes and for years prior to 2009 for California purposes.

Note 16 - Concentration of Credit Risk

The Home held approximately \$2,300,000 in excess of federal insurance limits in bank accounts at financial institutions on December 31, 2013.

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

Note 17 - Lease Commitment

In March 2009, the Home entered into a lease for property at 448 Atterdag Road, Unit 1, Solvang, CA, which had three one year renewal options. The first renewal option was exercised in March 2011 at \$1,600 per month and the second was exercised in March 2012 at \$1,648 per month. This lease expired March 14, 2013. In April 2014, the Home entered into a new three year lease for the same property with monthly payments of \$1,697 through March 2015 and subject to potential CPI increases on March 2015 and 2016, not to exceed 2%.

Total rent expense for this lease was \$20,270 and \$19,680 for the years ended December 31, 2013 and 2012, respectively.

Note 18 - Commitments

In November 2012, the Home entered into a contract of approximately \$800,000 for architectural services related to the Master Plan Project which will include significant improvements to the Home's facilities. In December 2013, the Home entered into a construction contract for approximately \$58,000 related to the Master Plan Project. As of December 31, 2013, approximately \$359,000 had been paid related to these contracts. The Master Plan Project is expected to be completed over a period of approximately three years.

Note 19 - Reclassifications

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

Note 20 - Subsequent Events

The Home intends to enter into an agreement with the City of Solvang (the City) during 2014 whereby the City will issue Certificates of Participation which will be used by the Home to fund construction of the Master Plan Project. If this agreement is entered into, the Home will have sole responsibility for making the required installment payments related to the certificates. The amount of funding to be obtained through is agreement has not yet been determined, but it would most likely be material in relation to the financial statements.

Subsequent events have been evaluated through April 11, 2014, the date that the financial statements were available to be issued.

Supplemental Schedules

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2013

	Solvang Lutheran Home, Inc.	Endowment Fund - SLH, Inc.	Total	Eliminations	Combined Total
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 1,172,817	\$ 40,165	\$ 1,212,982	\$ -	\$ 1,212,982
Restricted cash	492,758	-	492,758	-	492,758
Accounts receivable	448,584	-	448,584	-	448,584
Other assets	73,962	2,093	76,055	-	76,055
Total current assets	<u>2,188,121</u>	<u>42,258</u>	<u>2,230,379</u>	<u>-</u>	<u>2,230,379</u>
Assets Whose Use is Limited	-	-	-	-	-
Facilities and equipment, net	<u>14,467,269</u>	<u>-</u>	<u>14,467,269</u>	<u>-</u>	<u>14,467,269</u>
Other Assets:					
Investments	717,068	4,506,561	5,223,629	-	5,223,629
Debt issuance costs, net	46,949	-	46,949	-	46,949
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>764,017</u>	<u>4,802,561</u>	<u>5,566,578</u>	<u>-</u>	<u>5,566,578</u>
Total assets	<u>\$ 17,419,407</u>	<u>\$ 4,844,819</u>	<u>\$ 22,264,226</u>	<u>\$ -</u>	<u>\$ 22,264,226</u>
<u>LIABILITIES AND NET ASSETS</u>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 800,877	\$ -	\$ 800,877	\$ -	\$ 800,877
Current portion of notes payable	510,785	-	510,785	-	510,785
Total current liabilities	<u>1,311,662</u>	<u>-</u>	<u>1,311,662</u>	<u>-</u>	<u>1,311,662</u>
Long Term Liabilities:					
Unamortized accommodation fees	2,694,403	-	2,694,403	-	2,694,403
Notes payable to residents	400,000	-	400,000	-	400,000
Notes payable, net of current portion	2,479,451	-	2,479,451	-	2,479,451
Total long term liabilities	<u>5,573,854</u>	<u>-</u>	<u>5,573,854</u>	<u>-</u>	<u>5,573,854</u>
Total liabilities	<u>6,885,516</u>	<u>-</u>	<u>6,885,516</u>	<u>-</u>	<u>6,885,516</u>
Net Assets:					
Unrestricted:					
Board designated	296,769	4,844,819	5,141,588	-	5,141,588
Undesignated	10,111,396	-	10,111,396	-	10,111,396
Total unrestricted	<u>10,408,165</u>	<u>4,844,819</u>	<u>15,252,984</u>	<u>-</u>	<u>15,252,984</u>
Temporarily restricted	125,726	-	125,726	-	125,726
Total net assets	<u>10,533,891</u>	<u>4,844,819</u>	<u>15,378,710</u>	<u>-</u>	<u>15,378,710</u>
Total liabilities and net assets	<u>\$ 17,419,407</u>	<u>\$ 4,844,819</u>	<u>\$ 22,264,226</u>	<u>\$ -</u>	<u>\$ 22,264,226</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2013

	Solvang Lutheran Home, Inc.	Endowment Fund - SLH, Inc.	Total	Eliminations	Combined Total
Changes in Unrestricted Net Assets					
Operating Revenues:					
Skilled nursing facility	\$ 4,068,066	\$ -	\$ 4,068,066	\$ -	\$ 4,068,066
Residential care facility	3,579,322	-	3,579,322	-	3,579,322
Ancillary services	668,539	-	668,539	-	668,539
Thrift shop	100,347	-	100,347	-	100,347
Accommodation fee amortization	773,370	-	773,370	-	773,370
Interest income	9,679	165,001	174,680	(8,240)	166,440
Contributions and grants	494,945	17,050	511,995	-	511,995
Resident assistance from Endowment Fund	49,188	-	49,188	(49,188)	-
Other income	61,490	44,444	105,934	-	105,934
Total operating revenues	<u>9,894,946</u>	<u>226,495</u>	<u>10,031,441</u>	<u>(57,428)</u>	<u>9,974,013</u>
Operating Expenses:					
Health services	3,182,141	-	3,182,141	-	3,182,141
Dietary services	1,817,648	-	1,817,648	-	1,817,648
Housekeeping and laundry	675,891	-	675,891	-	675,891
Social services	358,480	-	358,480	-	358,480
Thrift shop	78,798	-	78,798	-	78,798
Administration	974,113	46,388	1,020,501	-	1,020,501
Plant operations and utilities	985,480	-	985,480	-	985,480
Interest expense	133,198	-	133,198	(8,240)	124,958
Depreciation and amortization	594,217	-	594,217	-	594,217
Resident assistance to Solvang Lutheran Home	-	49,188	49,188	(49,188)	-
Insurance and taxes	103,174	3,588	106,762	-	106,762
Total operating expense	<u>8,903,140</u>	<u>99,164</u>	<u>9,002,304</u>	<u>(57,428)</u>	<u>8,944,876</u>
Income from operations	901,806	127,331	1,029,137	-	1,029,137
Non-operating revenues and other gains (losses)					
Net gain on investments	-	286,313	286,313	-	286,313
Gain on sale of equipment	10,000	-	10,000	-	10,000
Loss on debt extinguishment	(100,595)	-	(100,595)	-	(100,595)
Net assets released from restrictions	90,519	-	90,519	-	90,519
Increase in unrestricted net assets	<u>901,730</u>	<u>413,644</u>	<u>1,315,374</u>	<u>-</u>	<u>1,315,374</u>
Unrestricted net assets, beginning of year	<u>9,506,435</u>	<u>4,431,175</u>	<u>13,937,610</u>	<u>-</u>	<u>13,937,610</u>
Unrestricted net assets, end of year	<u>10,408,165</u>	<u>4,844,819</u>	<u>15,252,984</u>	<u>-</u>	<u>15,252,984</u>
Changes in Temporarily Restricted Net Assets					
Contributions and grants	85,000	-	85,000	-	85,000
Interest income	577	-	577	-	577
Net assets released from restrictions	(90,519)	-	(90,519)	-	(90,519)
Decrease in temporarily restricted net assets	<u>(4,942)</u>	<u>-</u>	<u>(4,942)</u>	<u>-</u>	<u>(4,942)</u>
Temporarily restricted net assets, beginning of year	<u>130,668</u>	<u>-</u>	<u>130,668</u>	<u>-</u>	<u>130,668</u>
Temporarily restricted net assets, end of year	<u>125,726</u>	<u>-</u>	<u>125,726</u>	<u>-</u>	<u>125,726</u>
Total net assets, end of year	<u>\$ 10,533,891</u>	<u>\$ 4,844,819</u>	<u>\$ 15,378,710</u>	<u>\$ -</u>	<u>\$ 15,378,710</u>

See accompanying notes

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

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

See accompanying notes

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

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

See accompanying notes

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CONTINUING CARE
CONTRACTS BRANCH

SOLVANG LUTHERAN HOME, INC.

DECEMBER 31, 2013

SCHEDULES RELATED TO

CONTINUING CARE RESERVES



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



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

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CONTINUING CARE
CONTRACTS BRANCH

April 18, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Continuing Care Reserves

We have audited the accompanying continuing care reserves report of Solvang Lutheran Home, Inc. as of December 31, 2013.

Management's Responsibility for the Continuing Care Reserves Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the continuing care reserves report based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the continuing care reserves report is free of material misstatement.

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

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

Opinion

In our opinion, the continuing care reserves report referred to above presents fairly, in all material respects, the liquid reserve requirements of Solvang Lutheran Home as of December 31, 2013, in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

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

Restriction on Use

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

Bartlett, Rungli + Wolf, LLP

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	VAR	\$49,455	\$6,862		\$56,317
2	08/01/96	\$280,000	\$116,665		\$396,665
3	VAR 2009	\$0	\$1,365		\$1,365
4	04/01/11	\$0	\$20,000		\$20,000
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$144,892	\$0	\$474,347

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

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

PROVIDER: Solvang Lutheran Home, Inc.

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

	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
Long-Term Debt Obligation	07/15/13	\$26,566	\$47,266	12	\$567,192
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$26,566	\$47,266	12	\$567,192

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

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

PROVIDER: Solvang Lutheran Home, Inc.

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$474,347
2	Total from Form 5-2 bottom of Column (e)	\$567,192
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:	\$1,041,539

PROVIDER: Solvang Lutheran Home, Inc.

FORM 5-4

CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$8,944,876
2	Deductions:	
a.	Interest paid on long-term debt (see instructions)	\$171,458
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0
c.	Depreciation	\$587,022
d.	Amortization	\$7,195
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$2,709,187
f.	Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$3,474,862
4	Net Operating Expenses	\$5,470,014
5	Divide Line 4 by 365 and enter the result.	\$14,986
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$1,123,975

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

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Solvang Lutheran Home, Inc.
 Fiscal Year Ended: 31-Dec-13

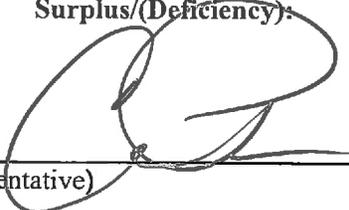
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2013 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$1,041,539</u>
[2] Operating Expense Reserve Amount	<u>\$1,123,975</u>
[3] Total Liquid Reserve Amount:	<u>\$2,165,514</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents		<u>\$1,930,050</u>
[5] Investment Securities		
[6] Equity Securities	<u>\$1,041,539</u>	<u>\$3,465,022</u>
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$0</u>	(not applicable)
[10] Other:		
<u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$1,041,539 [12]</u>	<u>\$5,395,072</u>
Reserve Obligation Amount: [13]	<u>\$1,041,539 [14]</u>	<u>\$1,123,975</u>
Surplus/(Deficiency): [15]	<u>\$0 [16]</u>	<u>\$4,271,097</u>

Signature: 

 (Authorized Representative)

Date: 4-28-14

Executive Director

 (Title)

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2013**

Form 5-1, Column c

Interest paid - Form 5-1 column c	\$	144,892
Change in accrued interest	\$	<u>(46,500)</u>
Interest expense related to debt incurred in prior fiscal years	\$	98,392
Interest paid - Form 5-2 column b	\$	<u>26,566</u>
Total interest expense per audited financial statements	\$	<u><u>124,958</u></u>

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2013**

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

Cash received from residents, per statement of cash flows	\$	8,126,403
Reimbursements for services to non-residents, per statement of cash flows		37,684
Cash received from community programs, per statement of cash flows		<u>288,230</u>
Total cash received for services		8,452,317
Cash received from persons with continuing care contracts		<u>(5,743,130)</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	\$	<u><u>2,709,187</u></u>

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

Guest meals	\$	20,856
Guest room rental		11,550
Room and board for non-contract residents		2,383,273
Thrift shop revenues		100,347
Food revenue from community organizations		187,883
Employee meals		<u>5,278</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	\$	<u><u>2,709,187</u></u>

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2013**

Form 5-5, Description and Amount of Reserves Maintained

Operating Reserves:

Cash deposits - undesignated	\$	916,213
Cash deposits - designated for master plan project		296,769
Certificates of deposit		717,068
Exchange traded funds		2,022,207
Mutual funds		<u>1,442,815</u>
		5,395,072

Debt Reserves

Mutual funds		<u>1,041,539</u>
		1,041,539

Total Liquid Reserve Assets \$ 6,436,611

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$1,979-\$5,908</u>	<u>\$4,795-\$6,593</u>	<u>(daily) \$291-\$345</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>2%</u>	<u>2%</u>	<u>2%</u>

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

[3] Indicate the date the fee increase was implemented: 01/01/13
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

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

The 2% increase was implemented to keep the Home from experiencing an operating loss and to maintain and improve the facilities.

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

Date Prepared: _____

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FACILITY NAME: SOLVANG LUTHERAN HOME, INC
 ADDRESS: 636 ATTERDAG ROAD, SOLVANG CA ZIP CODE: 93463 PHONE: 805-688-3263
 PROVIDER NAME: SOLVANG LUTHERAN HOME FACILITY OPERATOR: SOLVANG LUTHERAN HOME, INC
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: NONE **CONTINUING CARE CONTRACTS BRANCH**
 YEAR OPENED: 1953 # OF ACRES: 10.3 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 1

NUMBER OF UNITS:	RESIDENTIAL LIVING	HEALTH CARE
	APARTMENTS — STUDIO: <u>25</u>	ASSISTED LIVING: <u>15</u>
	APARTMENTS — 1 BDRM: <u>50</u>	SKILLED NURSING: <u>46</u>
	APARTMENTS — 2 BDRM: <u>1</u>	SPECIAL CARE: <u>N/A</u>
	COTTAGES/HOUSES: <u>0</u>	DESCRIBE SPECIAL CARE: _____ N/A
	RLU OCCUPANCY (%) AT YEAR END: <u>87%</u>	

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

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

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

RANGE OF ENTRANCE FEES: \$ 40,000 TO \$ 220,000 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

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

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

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

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (<u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>			

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

PROVIDER NAME: SOLVANG LUTHERAN HOME

CCRCs

LOCATION (City, State)

PHONE (with area code)

SOLVANG LUTHERAN HOME

SOLVANG, CA

805-688-3263

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

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

PROVIDER NAME: SOLVANG LUTHERAN HOME

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	7,699,298	7,416,435	8,383,950	8,688,648
LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest)	7,960,356	7,594,194	7,959,608	8,225,701
NET INCOME FROM OPERATIONS	(261,058)	(177,759)	424,342	462,947
LESS INTEREST EXPENSE	(201,473)	(198,644)	(184,015)	(124,958)
PLUS CONTRIBUTIONS	421,266	379,702	230,021	596,995
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	336,250	(208,114)	206,108	195,178
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	294,985	(204,815)	676,456	1,130,162
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	563,999	777,163	957,250	918,000

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

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
Banc of America	\$3,200,000	2.06%	2013	2019	6 Years

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

		2011	2012	2013
DEBT TO ASSET RATIO		.15	.13	.13
OPERATING RATIO		1.051	.971	.961
DEBT SERVICE COVERAGE RATIO		1.731	2.977	2.664
DAYS CASH-ON-HAND RATIO		189	199	281

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

	2010	%	2011	%	2012	%	2013
STUDIO	2,003		2,287		2,367	2%	2,414
ONE BEDROOM	3,952		4,227		4,375	2%	4,462
TWO BEDROOM	4,841		5,083		5,261	2%	5,367
COTTAGE/HOUSE	N/A		N/A		N/A		N/A
ASSISTED LIVING	4,362		4,565		5,599	2%	5,711
SKILLED NURSING	285		299		310	2%	316
SPECIAL CARE	N/A		N/A		N/A		N/A

COMMENTS FROM PROVIDER:

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

$$\frac{\begin{aligned} &\text{Total Operating Expenses} \\ &\quad - \text{Depreciation Expense} \\ &\quad - \text{Amortization Expense} \end{aligned}}{\begin{aligned} &\text{Total Operating Revenues} \\ &\quad - \text{Amortization of Deferred Revenue} \end{aligned}}$$

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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.

KEY INDICATORS REPORT

Solvang Lutheran Home, Inc.

Date Prepared: 3/7/2014

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

Chief Executive Officer Signature

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Preferred
Trend
Indicator

APR 30 2014
2017 2018

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Preferred Trend Indicator
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	80.14%	83.56%	89.44%	79.58%	85.33%	86.32%	88.82%	89.32%	89.82%	89.82%	89.82%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	-2.10%	3.22%	2.67%	2.42%	7.49%	7.96%	7.96%	7.96%	7.96%	7.96%	7.96%	↑
3. Net Operating Margin - Adjusted (%)	6.25%	6.20%	9.46%	11.13%	15.38%	16.69%	16.19%	15.69%	15.19%	14.69%	14.19%	↓
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments	\$2,228,948	\$3,803,683	\$3,954,810	\$4,770,394	\$4,901,460	\$6,933,811	\$4,050,000	\$4,100,000	\$4,150,000	\$4,200,000	\$4,250,000	↑
5. Days Cash on Hand (Unrestricted)	109.05	112.45	291.97	147.46	66.31	118.02	127.00	129.00	131.00	133.00	135.00	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees	\$2,388,335	\$2,765,243	\$2,374,054	\$2,239,611	\$2,533,467	\$2,753,659	\$2,700,000	\$2,750,000	\$2,750,000	\$2,750,000	\$2,750,000	N/A
7. Net Annual Entrance Fee proceeds	\$600,000	\$645,850	\$588,826	\$733,763	\$775,386	\$918,000	\$575,000	\$600,000	\$625,000	\$625,000	\$625,000	N/A
8. Unrestricted Net Assets	\$5,563,803	\$6,437,234	\$7,135,742	\$7,261,506	\$7,508,321	\$9,506,435	\$9,656,435	\$9,731,435	\$9,806,435	\$9,881,435	\$9,956,435	N/A
9. Annual Capital Asset Expenditure	\$457,275	\$689,156	\$613,277	\$3,828,671	\$2,415,541	\$1,013,515	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	N/A
10. Annual Debt Service Coverage												
Revenue Basis (x)	0.258	0.446	1.085	4.563	5.479	7.998	7.998	7.998	7.998	7.998	7.998	↑
11. Annual Debt Service Coverage (x)	1.48	4.46	3.12	3.70	5.48	8.53	5.10	5.15	5.20	5.25	5.30	↑
12. Annual Debt Service/Revenue (%)	6.30%	5.95%	5.14%	6.97%	7.33%	9.38%	5.60%	5.55%	5.50%	5.45%	5.40%	↓
13. Average Annual Effective Interest Rate (%)	6.00%	5.90%	3.53%	4.04%	4.15%	2.30%	5.40%	5.35%	5.30%	5.25%	5.20%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	1.08%	5.34%	115.48%	56.15%	26.29%	40.38%	5.60%	5.62%	5.64%	5.66%	5.68%	↑
15. Average Age of Facility (years)	21	19	27	28	28	19	22	21	20	20	20	↓

CONTINUING CARE
CC 88.52%
CTS BRANCH