

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED: 12 / 31 / 2014

PROVIDER(S): Solvang Lutheran Home, Inc.

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

RECEIVED MAY 04 2015

CONTACT PERSON: Ruthie Kitzmann, Finance Manager

CCLD / ADULT AND SENIOR CARE PROGRAM CENTRALIZED APPLICATIONS UNIT

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

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

- a [x] Annual Report Checklist.
b [x] Annual Provider Fee in the amount of: \$6,966.00
[] If applicable, late fee in the amount of: \$
c [x] Certification by the provider's Chief Executive Officer that:
[x] The reports are correct to the best of his/her knowledge.
[x] Each continuing care contract form in use or offered to new residents has been approved by the Department.
[x] The provider is maintaining the required liquid reserves and, when applicable, the required refund reserve.
d [x] Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
e [x] Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
f [x] Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
g [x] 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.

(NA)

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

- g1 [x] Disclosure Statement
g2 [x] Form 1-1
g3 [x] Form 7-1
g4 [x] Key Indicators Report



Solvang Lutheran Home, Inc.
A Premier Multi-level Retirement Community

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CGLD / ADULT AND SENIOR CARE PROGRAM
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April 30, 2015

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

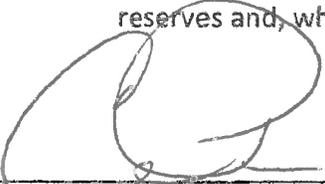
Attention: Community Care Licensing

Re: CEO Statement for FY2014

With regard to the Solvang Lutheran Home, Inc.'s FY 2014 Annual Report, the following statements are made:

I hereby certify that:

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



Christopher W. Parker,
Executive Director

Atterdag Village of Solvang - Atterdag Care Center - Atterdag Personal Care
636 Atterdag Road Solvang, California 93463 tel: 805.688.3263 fax: 805.688.8574



SOLVLUT-01

CCOLLINS

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

3/3/2015

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

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

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CENTRALIZED APPLICATIONS UNIT

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:	
INSURER(S) AFFORDING COVERAGE	
INSURER A: GuideOne Insurance	NAIC # 15032
INSURER B:	
INSURER C:	
INSURER D:	
INSURER E:	
INSURER F:	

INSURED

Solvang Lutheran Home, Inc.
636 Atterdag Road
Solvang, CA 93463

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 INSD	SUBR 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	03/01/2015	03/01/2016	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
								\$
A	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY <input 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	03/01/2015	03/01/2016	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 type="checkbox"/> EXCESS LIAB DED <input checked="" type="checkbox"/> RETENTION \$ 2,500			1404412	03/01/2015	03/01/2016	EACH OCCURRENCE	\$ 1,000,000
							AGGREGATE	\$
								\$
							PER STATUTE	
							OTH-ER	
							E.I. EACH ACCIDENT	\$
							E.I. DISEASE - EA EMPLOYEE	\$
							E.I. DISEASE - POLICY LIMIT	\$
A	Professional Liab.			1404411	03/01/2015	03/01/2016	Each Claim Limit	1,000,000
A	Professional Liab.			1404411	03/01/2015	03/01/2016	Aggregate Limit	3,000,000

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 Sue Collins

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FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	104
[2]	Number at end of fiscal year	100
[3]	Total Lines 1 and 2	204
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	102
All Residents		
[6]	Number at beginning of fiscal year	126
[7]	Number at end of fiscal year	126
[8]	Total Lines 6 and 7	252
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	126
[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)	\$9,288,510
[a] Depreciation	\$632,293
[b] Debt Service (Interest Only)	\$51,148
[2] Subtotal (add Line 1a and 1b)	\$683,441
[3] Subtract Line 2 from Line 1 and enter result.	\$8,605,069
[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)	\$6,966,008
[6] Total Amount Due (multiply Line 5 by .001)	x .001 \$6,966

PROVIDER Solvang Lutheran Home, Inc.
COMMUNITY Solvang Lutheran Home

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MAY 04 2015

CCLD / ADULT AND SENIOR CARE PROGRAM
CENTRALIZED APPLICATIONS UNIT

SOLVANG LUTHERAN HOME, INC.

AND AFFILIATE

DECEMBER 31, 2014 AND 2013

COMBINED FINANCIAL STATEMENTS



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

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

CCLD / ADULT AND SENIOR CARE PROGRAM
CENTRALIZED APPLICATIONS UNIT

**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, 2014 and 2013, and the related combined statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Solvang Lutheran Home, Inc. and Affiliate as of December 31, 2014 and 2013 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining information on pages 22-25 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015, on our consideration of Solvang Lutheran Home, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Solvang Lutheran Home, Inc. and Affiliate's internal control over financial reporting and compliance.

Bartlett, Prungh + Wolf, LLP

Santa Barbara, California
April 27, 2015

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 4,092,334	\$ 1,212,982
Accounts receivable (Note 2)	455,610	448,584
Other assets	76,325	76,055
Total current assets	4,624,269	1,737,621
Assets Whose Use is Limited:		
Donor restricted (Note 3)	494,183	492,758
Held with trustee (Note 3)	3,494,689	-
Total limited use assets	3,988,872	492,758
Facilities and equipment, net (Note 5)	17,355,524	14,467,269
Other Assets:		
Investments (Note 4)	8,352,168	5,223,629
Debt issuance costs, net of accumulated amortization (Note 6)	430,312	46,949
Income producing real estate (Note 2)	296,000	296,000
Total other assets	9,078,480	5,566,578
Total assets	\$ 35,047,145	\$ 22,264,226

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,298,068	\$ 795,877
Interest payable	81,812	5,000
Current portion of long term debt (Note 7)	521,334	510,785
Total current liabilities	1,901,214	1,311,662
Long Term Liabilities:		
Unamortized accommodation fees (Note 2)	2,847,772	2,694,403
Long term debt, net of current portion (Note 7)	7,887,106	2,879,451
Total long term liabilities	10,734,878	5,573,854
Total liabilities	12,636,092	6,885,516
Net Assets:		
Unrestricted:		
Board designated (Note 9)	6,962,073	5,141,588
Undesignated	15,321,829	10,111,396
Total unrestricted	22,283,902	15,252,984
Temporarily restricted (Note 10)	127,151	125,726
Total net assets	22,411,053	15,378,710
Total liabilities and net assets	\$ 35,047,145	\$ 22,264,226

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes in Unrestricted Net Assets:		
Operating Revenues:		
Skilled nursing facility	\$ 4,360,775	\$ 4,068,066
Residential care facility	3,718,492	3,579,322
Ancillary services	798,917	668,539
Thrift shop	105,144	100,347
Accommodation fee amortization	783,591	773,370
Interest income	286,898	165,863
Contributions and grants	6,161,803	511,995
Other income	118,582	106,511
Total operating revenues	<u>16,334,202</u>	<u>9,974,013</u>
Operating Expenses:		
Health services	3,403,280	3,182,141
Dietary services	1,905,244	1,817,648
Housekeeping and laundry	639,007	675,891
Social services	433,652	358,480
Thrift shop	85,363	78,798
Administration	1,106,390	1,020,501
Plant operations and utilities	926,371	985,480
Interest expense	51,148	124,958
Depreciation and amortization	638,863	594,217
Insurance and taxes	99,192	106,762
Total operating expenses	<u>9,288,510</u>	<u>8,944,876</u>
Income from operations	7,045,692	1,029,137
Non-operating revenues and other gains (losses):		
Net gain (loss) on investments	(139,022)	286,313
Gain (loss) on sale of equipment	(1,478)	10,000
Loss on debt extinguishment	-	(100,595)
Net assets released from restrictions	125,726	90,519
Increase in unrestricted net assets	<u>7,030,918</u>	<u>1,315,374</u>
Unrestricted net assets, beginning of year	<u>15,252,984</u>	<u>13,937,610</u>
Unrestricted net assets, end of year	<u>22,283,902</u>	<u>15,252,984</u>
Changes in Temporarily Restricted Net Assets:		
Contributions and grants	125,000	85,000
Interest income	2,151	577
Net assets released from restrictions	(125,726)	(90,519)
Increase (decrease) in temporarily restricted net assets	<u>1,425</u>	<u>(4,942)</u>
Temporarily restricted net assets, beginning of year	<u>125,726</u>	<u>130,668</u>
Temporarily restricted net assets, end of year	<u>127,151</u>	<u>125,726</u>
Total net assets, end of year	<u>\$ 22,411,053</u>	<u>\$ 15,378,710</u>

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Cash received from:		
Residents	\$ 8,619,647	\$ 8,126,403
Community programs	309,430	288,230
Contributions received	6,161,803	511,995
Investment income received	286,898	165,863
Processing fees	67,200	58,500
Accommodation fees received	997,000	918,000
Rental income	48,991	44,444
Reimbursements for services to non-residents	47,225	37,684
Other income	2,391	3,567
Cash paid to suppliers and employees	(8,483,422)	(8,154,121)
Interest paid	-	(171,458)
Net cash provided by operating activities	<u>8,057,163</u>	<u>1,829,107</u>
Cash Flows from Investing Activities:		
Purchase of investments	(3,816,672)	(4,759,487)
Purchase of assets restricted to investment in facilities and equipment	(127,151)	(85,577)
Proceeds from sale of investments	674,837	4,208,685
Proceeds from sale of equipment	5,646	10,000
Facilities and equipment purchases	(3,055,164)	(1,165,848)
Decrease (increase) in assets whose use is limited	(3,494,689)	684,127
Net cash used by investing activities	<u>(9,813,193)</u>	<u>(1,108,100)</u>
Cash Flows from Financing Activities:		
Accommodation fees refunded	(120,040)	-
Contributions and interest restricted for facilities and equipment	127,151	85,577
Proceeds from issuance of long term debt	5,529,270	3,200,000
Debt issuance costs	(389,933)	(48,360)
Repayment of long term debt	(511,066)	(2,897,357)
Net cash provided by financing activities	<u>4,635,382</u>	<u>339,860</u>
Increase in cash and cash equivalents	2,879,352	1,060,867
Cash and cash equivalents, beginning of year	<u>1,212,982</u>	<u>152,115</u>
Cash and cash equivalents, end of year	<u>\$ 4,092,334</u>	<u>\$ 1,212,982</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 2H and J. Actual results could differ from those estimates.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. Certain cash equivalents held for investment purposes are not considered to be cash and cash equivalents for the statement of cash flows.

D) Basis of Accounting for Receivables

Accounts receivable are carried at their estimated collectible amount. Management periodically evaluates receivables for collectability on a specific-account basis and records an allowance for any amounts estimated to be uncollectible. No allowance was recorded as of December 31, 2014 or 2013, as all amounts were considered to be fully collectible.

E) Investments

The Home reports investments in marketable securities at fair value and includes realized and unrealized gains and losses in the statement of activities and changes in net assets. See Note 4 for additional information regarding fair value.

F) Facilities and Equipment

Facilities and equipment are capitalized at cost and depreciated on a straight-line basis over the estimated useful life of the specific asset, which ranges from three to forty years. Certain interest costs incurred during the period of construction of facilities are capitalized as a component of the cost of acquiring those assets. Cash outflows related to capitalized interest are included on the statement of cash flows as facilities and equipment purchases.

G) Debt Issuance Costs

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

H) Accommodation Fees

Accommodation fees represent payment for future services and are accounted for as deferred revenue. The deferred revenue is amortized based on the estimated life of the resident or contract term, whichever is shorter. Life expectancy is determined using life expectancy tables provided by the 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 at December 31, 2014 because management does not believe that a significant portion of accommodation fees will be refunded.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

I) Income Producing Real Estate

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

J) Obligation to Provide Future Services

The Home annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from accommodation fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from accommodation fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 4.0 percent. As of December 31, 2014 and 2013 there was no accruable obligation to provide future services.

K) Medical Revenue

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

L) Donor Restrictions

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

M) Ancillary Services

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

N) Income Taxes

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

O) Income from Operations

The statement of activities and changes in net assets includes income from operations. Changes in unrestricted net assets which are excluded from income from operations, consistent with industry practice, include gains and losses on investments and sale of equipment, 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 2 - Summary of Significant Accounting Policies (Continued)

P) Financial Risk

The Home maintains its cash in bank deposit accounts and money market funds which at times may exceed federally insured limits. The Home has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash balances.

The Home invests in a professionally managed portfolio that contains fixed income securities and equity securities. Such investments are exposed to various systematic risks such as market and credit. Due to the level of risk associated with such investments it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Note 3 - Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2014 and 2013 is set forth in the table below.

	<u>2014</u>	<u>2013</u>
Donor restricted:		
Cash and cash equivalents	\$ 494,183	\$ 492,758
Held by trustee:		
Cash and cash equivalents	<u>3,494,689</u>	<u>-</u>
Total limited use assets	<u>\$ 3,988,872</u>	<u>\$ 492,758</u>

Donor restricted assets are comprised of contributions which have been restricted by the donor for the purchase of facilities and equipment.

As a requirement of the 2014 certificates of participation (see Note 7), certain funds are controlled by the trustee at December 31, 2014. These funds consist of a purchase payment fund, certificate reserve fund, and project account for construction.

Note 4 - 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.

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

Note 4 - **Fair Value Measurements (Continued)**

Based on the observability of the inputs used in the valuation techniques the Home is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

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

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

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

During the years ended December 31, 2014 and 2013, there were no changes to the Home's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

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

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

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

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

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

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

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

Note 4 - Fair Value Measurements (Continued)

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

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

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

Note 4 - Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value, on a recurring basis, by level within the hierarchy as of December 31, 2013.

	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	<u>2,022,207</u>	<u>2,022,207</u>	<u>-</u>	<u>-</u>
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	<u>2,484,354</u>	<u>2,484,354</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 5,223,629</u>	<u>\$ 4,506,561</u>	<u>\$ 717,068</u>	<u>\$ -</u>

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:

	<u>2014</u>	<u>2013</u>
Facilities and equipment:		
Land	\$ 873,290	\$ 873,290
Buildings and improvements	19,829,759	19,653,844
Furnishings and equipment	4,198,983	4,027,020
Vehicles	336,565	332,003
Construction in progress	3,697,685	575,645
Total facilities and equipment	<u>28,936,282</u>	<u>25,461,802</u>
Accumulated depreciation:		
Buildings and improvements	7,639,180	7,142,826
Furnishings and equipment	3,667,184	3,575,152
Vehicles	274,394	276,555
Less accumulated depreciation	<u>11,580,758</u>	<u>10,994,533</u>
Total facilities and equipment, net	<u>\$ 17,355,524</u>	<u>\$ 14,467,269</u>

Note 6 - Debt Issuance Costs

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

	<u>2014</u>	<u>2013</u>
Debt issuance costs	\$ 438,293	\$ 48,360
Less accumulated amortization	(7,981)	(1,411)
Total net debt issuance costs	<u>\$ 430,312</u>	<u>\$ 46,949</u>

Amortization expense was \$6,570 and \$7,195 for the years ended December 31, 2014 and 2013, respectively. Estimated future amortization expense is as follows for the years ended December 31:

2015	\$ 23,175
2016	23,175
2017	23,175
2018	23,175
2019	18,474
Thereafter	319,138
	<u>\$ 430,312</u>

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

Note 7 - Long Term Debt

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

	<u>2014</u>	<u>2013</u>
Note payable to resident	\$ 400,000	\$ 400,000
Banc of America lease agreement	2,479,451	2,990,236
Certificates of participation (COPs)	3,470,000	-
Original issuance premium on COPs	8,163	-
USDA loan	<u>2,050,826</u>	<u>-</u>
Total long term debt	8,408,440	3,390,236
Less current portion	<u>(521,334)</u>	<u>(510,785)</u>
Total long term debt, net of current portion	<u>\$ 7,887,106</u>	<u>\$ 2,879,451</u>

Note Payable to Resident

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 donor restricted assets on the balance sheet for the years ending December 31, 2014 and 2013. Interest expense on the note was \$20,000 and \$28,227 for the years ended December 31, 2014 and 2013, respectively.

Banc of America Lease Agreement

In July of 2013, the Home entered into an agreement with Banc of America Public Capital Corp to lease funds in the amount of \$3,200,000. The funds were used to pay off various notes payable, supplement expenditures for the Home's Master Plan Project, and to pay off the 1996 Certificates of Participation. Monthly payments in the amount of \$47,266 are due from August 2013 through July 2019, including interest at 2.05%. The balance of this obligation was \$2,479,451 at December 31, 2014. Related interest expense was \$56,408 and \$26,566 of which \$25,267 and \$0 was capitalized as part of construction in progress for the years ended December 31, 2014 and 2013, respectively.

The Banc of America lease agreement requires the Home's Endowment Fund to maintain a minimum amount in the Fund which is verified by Banc of America twice per year. As of December 31, 2014 and 2013, the Home maintained the minimum required balance and therefore is in compliance with all covenants prescribed in the lease agreement. The agreement is collateralized by various assets of the Home.

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

Note 7 - Long Term Debt (Continued)

Scheduled principal payments for the Banc of America Public Capital Corp lease for the next five years at December 31, 2014 are as follows:

2015	\$	521,334
2016		532,101
2017		543,091
2018		554,307
2019		328,618
	<u>\$</u>	<u>2,479,451</u>

Certificates of Participation

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

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

The regulatory agreement to the COPs require the Home to fix, charge, and collect rates, fees and charges which are reasonably projected to be sufficient in each year to produce net income available for debt service of at least 1.25 times the maximum aggregate annual debt service for such year. The regulatory agreement also requires the Home to maintain, as of the end of each year, a ratio of current assets to current liabilities of at least 1.5 to 1, and at least 120 days cash on hand at December 31, 2014. The days cash on hand requirement increases to 160 days at December 31, 2015, and to 200 days at December 31, 2016 and thereafter. The Home was in compliance with these requirements as of December 31, 2014.

Principal payments on the certificates required for the next five years and thereafter at December 31, 2014 are as follows:

2015	\$	-
2016		35,000
2017		95,000
2018		95,000
2019		100,000
Thereafter		3,145,000
	<u>\$</u>	<u>3,470,000</u>

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

Note 7 - Long Term Debt (Continued)

USDA Loan

In July of 2014, the Home received approval for a United States Department of Agriculture Community Facilities Loan of up to \$7,335,000 for construction of a new assisted living facility. The Home receives funding from the loan on a reimbursement basis and at December 31, 2014 \$2,050,826 had been received. The interest rate is fixed at 4.0% and the loan is payable over a 30 year term. Annual interest-only payments are due on July 17, 2015 and July 17, 2016, with monthly principal and interest payments of \$36,382 commencing on August 17, 2016. The loan is secured by the assisted living facility, and a shared interest in the related land. Interest expense in the amount of \$17,869 was incurred as of December 31, 2014 and was entirely capitalized to construction in progress.

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

2015	\$	-
2016		67,654
2017		148,595
2018		154,649
2019		160,949
Thereafter		6,803,153
	\$	<u>7,335,000</u>

Note 8 - Line of Credit

During 2012, the Home obtained a \$500,000 line of credit with Montecito Bank & Trust. The line of credit, which expired on May 31, 2014, had an interest rate of 2.8% and was secured by a \$500,000 certificate of deposit held at Montecito Bank & Trust. The line of credit was not renewed upon it's 2014 expiration.

Note 9 - Board Designated Net Assets

At December 31, 2014 and 2013, the Board of Directors had designated a portion of the unrestricted net assets for the following purposes:

	<u>2014</u>	<u>2013</u>
Endowment Fund of the Solvang Lutheran Home, Inc.	\$ 6,956,706	\$ 4,844,819
Capital improvements	5,367	296,769
Total designated net assets	<u>\$ 6,962,073</u>	<u>\$ 5,141,588</u>

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

Note 10 - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Purchase of equipment	\$ 127,151	\$ 125,726
Total temporarily restricted net assets	<u>\$ 127,151</u>	<u>\$ 125,726</u>

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

	<u>2014</u>	<u>2013</u>
Purchase of equipment	\$ 125,726	\$ 90,519
	<u>\$ 125,726</u>	<u>\$ 90,519</u>

Note 11 - 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:

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 7,032,343	\$ 1,310,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	638,863	594,217
Net accommodation fees	997,000	918,000
Amortization of unearned entrance fees	(783,591)	(773,370)
Loss on debt extinguishment	-	100,595
Net (gain) loss on investments	139,022	(286,313)
(Gain) loss on sale of equipment	1,478	(10,000)
Contributions restricted for long-term assets	(127,151)	(85,000)
Interest restricted for long-term assets	-	(577)
(Increase) decrease in:		
Accounts receivable	(7,026)	36,043
Other assets	(270)	56,397
Increase (decrease) in:		
Accounts payable and accrued expenses	166,495	(31,317)
Net cash provided by operating activities	<u>\$ 8,057,163</u>	<u>\$ 1,829,107</u>

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

Note 12 - Malpractice Insurance

The Home maintains professional liability insurance on an occurrence basis. There were no claims outstanding at December 31, 2014.

Note 13 - 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 2014 and 2013, one employee participated in this plan. The Home did not make contributions to the plan in 2014 or 2013.

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 14 - 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, 2014 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 2011 for federal purposes and for years prior to 2010 for California purposes.

Note 15 - 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. This lease expired March 14, 2013, however 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 \$20,370 and \$20,270 for the years ended December 31, 2014 and 2013, respectively.

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

Note 16 - Commitments

During 2014 the Home entered into a contract for construction of a new assisted living facility and nine new independent living cottages for a total of \$9,511,008. As of December 31, 2014, \$2,335,799 had been incurred related to this contract. The remainder of the construction is expected to be completed during 2015.

Note 17 - Reclassifications

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

Note 18 - Subsequent Events

Subsequent events have been evaluated through April 27, 2015, 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, 2014

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

See accompanying notes

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2014

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

See accompanying notes

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
Accounts receivable	448,584	-	448,584	-	448,584
Other assets	73,962	2,093	76,055	-	76,055
Total current assets	<u>1,695,363</u>	<u>42,258</u>	<u>1,737,621</u>	<u>-</u>	<u>1,737,621</u>
Assets Whose Use is Limited:					
Donor restricted	492,758	-	492,758	-	492,758
Total limited use assets	<u>492,758</u>	<u>-</u>	<u>492,758</u>	<u>-</u>	<u>492,758</u>
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	\$ 795,877	\$ -	\$ 795,877	\$ -	\$ 795,877
Interest payable	5,000	-	5,000	-	5,000
Current portion of long term debt	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
Long term debt, net of current portion	2,879,451	-	2,879,451	-	2,879,451
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

	<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	\$ 4,068,066	\$ -	\$ 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	9,102	165,001	174,103	(8,240)	165,863
Contributions and grants	494,945	17,050	511,995	-	511,995
Resident assistance from Endowment Fund	49,188	-	49,188	(49,188)	-
Other income	62,067	44,444	106,511	-	106,511
Total operating revenues	<u>9,304,946</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 expenses	<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:					
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	9,506,435	4,431,175	13,937,610	-	13,937,610
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 assets	(4,942)	-	(4,942)	-	(4,942)
Temporarily restricted net assets, beginning of year	130,668	-	130,668	-	130,668
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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Solvang Lutheran Home, Inc. and Affiliate (the Home), which comprise the combined statement of financial position as of December 31, 2014, and the related combined statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2014-01, 2014-02 and 2014-03 that we consider to be significant deficiencies.



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

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

Report on Compliance for Each Major Federal Program

We have audited Solvang Lutheran Home, Inc. and Affiliate's (the Home's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Home's major federal programs for the year ended December 31, 2014. The Home's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Home complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-04. Our opinion on each major federal program is not modified with respect to this matter.

The Home's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Home's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-04 and 2014-05 that we consider to be significant deficiencies.

The Home's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Home's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Bartlett, Pring & Wolf, LLP

Santa Barbara, California
April 27, 2015

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

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Rural Development Program Community Facilities Loan	10.766	04-042-908024620	\$2,050,826

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

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the activity of Solvang Lutheran Home, Inc. and Affiliate's federal loan program. The schedule has been prepared on the cash basis of accounting and reports the value of loans received from the USDA during 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

Note 2 – Program Description

The Home has one community facilities loan with the United States Department of Agriculture to construct a new assisted living facility.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

I. AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

II. FINANCIAL STATEMENT FINDINGS

Finding 2014-01

Criteria:

Long term debt should be properly reflected on the Combined Statement of Financial Position based on actual principal amounts outstanding. Debt issuance costs should be capitalized on the Combined Statement of Financial Position and amortized over the life of the related debt.

Condition and Context:

The general ledger balances for the Home's certificates of participation (COPs) and related debt issuance costs were both significantly understated. Management relies on the Home's outside CPAs to make year end adjustments related to debt and debt issuance costs.

Cause:

The Home's outside CPA used different workpapers to record the long-term debt and debt issuance costs instead of the actual escrow final closing documents.

Effect:

An audit adjustment for \$178,976 was required to increase the balance of the COPs, and an audit adjustment for \$190,669 was required to increase the debt issuance costs.

Recommendation:

We recommend that the management and the outside CPA communicate regarding non-routine transactions such as debt issuances that need to be recorded on the general ledger to ensure that all parties have access to and are using the same information. Additionally, management should review the long term debt balances recorded by the outside CPA for accuracy.

Views of Responsible Officials and Corrective Action Plan:

In the future, when the Home incurs a debt obligation, management and the outside CPA will meet to review the transaction and the documents required to properly post it prior to preparing the financial statements.

Finding 2014-02

Criteria:

Net asset classes should be recorded and presented based on the presence or absence of donor imposed restrictions, in accordance with Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Condition and Context:

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

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-02 (Continued)

Cause:

No formal process was in place to ensure that these transactions were properly recorded in net asset accounts.

Effect:

Lack of internal control over the recording of net asset categories results in the reasonable possibility that net asset balances could be significantly misstated and that the misstatement would not be detected and corrected in a timely manner. However, the receipt and expenditure of temporarily restricted net assets during 2014 was such that there was only a net change of \$1,425 from December 31, 2013 to December 31, 2014.

Recommendation:

We recommend that Management and the outside CPAs work together to implement controls over ensuring that the restricted contributions and expenditures get recorded to the proper net asset accounts.

Views of Responsible Officials and Corrective Action Plan:

The outside CPA routinely waited until the annual audit to determine the amounts before posting to the various net asset classes. As a result of this finding, the outside CPA will make such adjustments in their preliminary financial statements in the future.

Finding 2014-03

Criteria:

Retentions held on contractor invoices should be properly recorded as a liability and corresponding increase in the applicable facilities and equipment account in the period incurred.

Condition and Context:

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

Cause:

The Home's outside CPA records activity based on purchasing information provided by the Home which did not show the gross amount of the contractor invoices before retentions were deducted.

Effect:

An audit adjustment in the amount of \$113,521 was required to record the retentions held and payable at December 31, 2014.

Recommendation:

We recommend that procedures be implemented to ensure that retentions payable are identified by management and communicated to the outside CPAs to be recorded on the general ledger.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-03 (Continued)

Views of Responsible Officials and Corrective Action Plan:

A monthly retention schedule has been and will continue to be provided to the outside CPA who will utilize this schedule to calculate and record monthly retention amounts.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-04

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

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

Compliance Requirement: Procurement

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

Criteria:

The requirements for procurement under this program are contained in 2 CFR 215 sections 215.40 through 215.48 and 7 CFR 1942.18. Under these regulations the Home is required to establish and implement procurement policies which conform to applicable Federal law and regulations and standards.

Condition and Context:

The Home does not have a formal procurement policy which conforms to the above noted regulations.

Cause:

Management was not aware that this requirement was applicable to 2014 activity.

Effect:

The Company did not comply with all requirements of 2 CFR sections 215.40 through 215.48. Specifically, the Company did not properly document their cost and price analysis for all applicable procurements, and not all procurements had documented contracts with federally required provisions included. The Home did comply with the required regulations for the two largest contracts related to the program, and the remaining contracts which were not in compliance were cumulatively immaterial.

Questioned Costs:

\$0

Recommendation:

We recommend that the Home implement controls to ensure that procurements are made in accordance with applicable federal regulations and develop and maintain written procurement procedures which specify all requirements.

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-04 (Continued)

Views of Responsible Officials and Corrective Action Plan:

The USDA Letter of Conditions dated May 19, 2014 stated that the OMB Circular A-133 Requirements were a condition to be satisfied after project completion. The project will be completed August 2015. On March 20, 2015 management implemented a policy and procedure.

Finding 2014-05

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

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

Compliance Requirement: Suspension and Debarment

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria:

In accordance with 2 CFR 180, 2 CFR 215.13, and 7 CFR 1942.18, award recipients must not enter into covered transactions with parties that are suspended or debarred or whose principals are suspended or debarred.

Condition and Context:

The Home does not have internal controls implemented to ensure compliance with the suspension and debarment compliance requirements. Specifically, there is no process in place to identify covered transactions or to ensure that vendors are not suspended or debarred, either by checking the central contractor registry, or obtaining the necessary Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion, which evidences the vendor's exclusion from the suspension and debarment listing.

Cause:

Management was not aware that this requirement was applicable to 2014 activity.

Effect:

Lack of internal control over periodic monitoring of suspended or debarred parties results in the reasonable possibility that transactions could be entered into with parties who are suspended or debarred and that noncompliance would not be detected and corrected in a timely manner. However, the Home did receive the Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion from the two largest contractors related to this program, and no vendors selected for audit testing were identified who were suspended or debarred.

Questioned Costs:

\$0

SOLVANG LUTHERAN HOME, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-05 (Continued)

Recommendation:

We recommend that procedures be designed and implemented to ensure that covered transactions are not entered into with suspended or debarred parties. Management should maintain records documenting their review of the central contractor registry if a vendor certification is not obtained.

Views of Responsible Officials and Corrective Action Plan:

The USDA Letter of Conditions dated May 19, 2014 stated that the OMB Circular A-133 Requirements were a condition to be satisfied after project completion. The project will be completed August 2015. On March 20, 2015 management implemented a policy and procedure.

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CCLD / ADULT AND SENIOR CARE PROGRAM
CENTRALIZED APPLICATIONS UNIT

SOLVANG LUTHERAN HOME, INC.

DECEMBER 31, 2014

SCHEDULES RELATED TO

CONTINUING CARE RESERVES



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



April 21, 2015

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MAY 04 2015

CCLD / ADULT AND SENIOR CARE PROGRAM
CENTRALIZED APPLICATIONS UNIT

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, 2014.

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, 2014, in accordance with the financial report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

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

Restriction on Use

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

Bartlett, Pringh + Wolf, LLP

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	07/15/13	\$510,785	\$56,408		\$567,193
2	04/01/11	\$0	\$20,000		\$20,000
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$76,408	\$0	\$587,193

(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)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1	07/17/14	\$0	\$58,943	2	\$117,886
2	07/17/14	\$0	\$36,382	0	\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$0	\$95,325	2	\$117,886

(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)	\$587,193
2	Total from Form 5-2 bottom of Column (e)	\$117,886
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$20,370
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$725,449

PROVIDER: Solvang Lutheran Home, Inc.

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$9,288,510
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$76,408
	b. Credit enhancement premiums paid for long-term debt (see instructions)	\$0
	c. Depreciation	\$632,293
	d. Amortization	\$6,570
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$3,043,957
	f. Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$3,759,228
4	Net Operating Expenses	\$5,529,282
5	Divide Line 4 by 365 and enter the result.	\$15,149
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$1,136,154

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-14

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements.

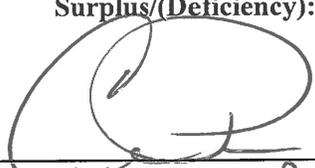
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 12/31/2014 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$725,449
[2] Operating Expense Reserve Amount	\$1,136,154
[3] Total Liquid Reserve Amount:	\$1,861,603

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	\$344,635	\$3,961,441
[5] Investment Securities		\$802,576
[6] Equity Securities		\$7,335,850
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	\$380,814	(not applicable)
[10] Other: <div style="border: 1px solid black; height: 20px; width: 100%; background-color: #cccccc;"></div> (describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	\$725,449 [12]	\$12,099,867
Reserve Obligation Amount: [13]	\$725,449 [14]	\$1,136,154
Surplus/(Deficiency): [15]	\$0 [16]	\$10,963,713

Signature:



(Authorized Representative) Chris Parker

Executive Director

(Title)

Date: 04/30/2015

Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2014

Form 5-1, Column c

Interest paid - Form 5-1 column c	\$ 76,408
Change in accrued interest	-
Interest capitalized to construction in progress	<u>(25,267)</u>
Interest expense related to debt incurred in prior fiscal years	<u>51,141</u>
Interest paid - Form 5-2 column b	-
Change in accrued interest	76,812
Amortization of premium (non-cash reduction to interest)	(281)
Interest capitalized to construction in progress	<u>(76,524)</u>
Interest expense related to debt incurred in the current fiscal year	<u>7</u>
Total interest expense per audited financial statements	<u><u>\$ 51,148</u></u>

Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2014

**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	\$ 8,619,647
Reimbursements for services to non-residents, per statement of cash flows	47,225
Cash received from community programs, per statement of cash flows	<u>309,430</u>
Total cash received for services	8,976,302
Cash received from persons with continuing care contracts	<u>(5,932,345)</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u>\$ 3,043,957</u>

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

Guest meals	\$ 21,197
Guest room rental	20,771
Room and board for non-contract residents	2,687,302
Thrift shop revenues	105,144
Food revenue from community organizations	204,286
Employee meals	<u>5,257</u>
Total revenue received for services to persons who did not have a continuing care contract-per Form 5-4, line 2E	<u>\$ 3,043,957</u>

**Solvang Lutheran Home
Continuing Care Reserve Report
December 31, 2014**

Form 5-5, Description and Amount of Reserves Maintained

Operating Reserve:

Cash deposits - undesignated	\$	3,742,332
Cash deposits - designated for master plan project		5,367
Certificates of deposit		213,742
Exchange traded funds		3,091,153
Mutual funds		3,505,627
Fixed Income securities		802,576
Common stocks		<u>739,070</u>
		12,099,867

Debt Service Reserve:

Cash and cash equivalents:		
Certificate reserve fund held by trustee		224,818
Purchase payment fund held by trustee		155,996
Cash deposits - undesignated		<u>344,635</u>
		725,449

Total Reserves Maintained \$ 12,825,316

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>\$2,038-\$6,085</u>	<u>\$4,939-\$6,791</u>	<u>(daily) \$314-\$355</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3%</u>	<u>3%</u>	<u>3%</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: 01/01/14
(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 3% 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 Reported: 03/19/15
RECEIVED
MAY 04 2015

FACILITY NAME: SOLVANG LUTHERAN HOME, INC. DBA: ATTERDAG VILLAGE OF SOLVANG
 ADDRESS: 636 ATTERDAG ROAD, SOLVANG ZIP CODE: 93463
 PROVIDER NAME: SOLVANG LUTHERAN HOME FACILITY OPERATOR: SOLVANG LUTHERAN HOME, INC.
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: NONE
 YEAR # OF SINGLE MULTI- MILES TO SHOPPING CTR: 1
 OPENED: 1953 ACRES: 10.3 STORY STORY OTHER: MILES TO HOSPITAL: 1

NUMBER OF UNITS:

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

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

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

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

RANGE OF ENTRANCE FEES: \$ 40,000 - \$ 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(S) TO THE BOARD (briefly describe their involvement): > THE RESIDENT REPRESENTATIVE ON THE BOARD IS ELECTED AND VOTED ONTO THE BOARD
 > OF DIRECTORS ANNUALLY BY THE RESIDENTS. THE RESIDENT BOARD MEMBER PARTICIPATES THE SAME AS ALL CURRENT BOARD OF DIRECTORS, WHO HAVE CHOICES AS TO THE COMMITTEE IN WHICH THEY PARTICIPATE.

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (4 TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (3/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, INC.

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

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

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

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

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

PROVIDER NAME: SOLVANG LUTHERAN HOME, INC.

	2011	2012	2013	2014
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	7,416,435	8,383,950	8,688,648	9,388,808
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	7,594,194	7,959,608	8,225,701	8,598,499
NET INCOME FROM OPERATIONS	(177,759)	424,342	462,947	790,309
LESS INTEREST EXPENSE	(198,644)	(184,015)	(124,958)	(51,148)
PLUS CONTRIBUTIONS	379,702	230,021	596,995	6,286,803
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	(208,114)	206,108	195,178	(140,500)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	(204,815)	676,456	1,130,162	6,885,464
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	777,163	957,250	918,000	997,000

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

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
US Department of Agriculture	\$2,050,826	4.00%	2014	2044	30 Years
U.S. Bank	\$3,470,000	2.00% - 4.00%	2014	2040	26 Years
Banc of America	\$2,479,451	2.05%	2013	2019	6 Years

FINANCIAL RATIOS (see next page for ratio formulas)

	2013 CCAC Medians 50 th Percentile (optional)	2012	2013	2014
DEBT TO ASSET RATIO		.13	.13	.23
OPERATING RATIO		.971	.961	.921
DEBT SERVICE COVERAGE RATIO		2.977	2.664	13.537
DAYS CASH ON HAND RATIO		199	281	525

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2011	%	2012	%	2013	%	2014
STUDIO	2,287		2,367		2,414	3%	2,487
ONE BEDROOM	4,227		4,375		4,462	3%	4,596
TWO BEDROOM	5,083		5,261		5,367	3%	5,528
COTTAGE/HOUSE	N/A		N/A		N/A		N/A
ASSISTED LIVING	4,565		5,599		5,711	3%	5,883
SKILLED NURSING	299		310		316	6%	335
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

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

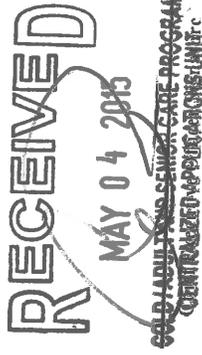
NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

KEY INDICATORS REPORT

Solvang Lutheran Home, Inc.

Date Prepared: 3/10/2015

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



	Forecast										Preferred Trend Indicator	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		2018
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	80.14%	83.56%	89.44%	79.58%	85.33%	88.32%	88.08%	88.58%	89.08%	89.58%	90.08%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	-2.10%	3.22%	2.67%	2.42%	7.49%	7.96%	10.29%	7.00%	7.00%	8.00%	8.00%	↑
3. Net Operating Margin - Adjusted (%)	6.25%	6.20%	9.46%	11.13%	15.38%	16.69%	19.00%	12.93%	12.93%	14.77%	14.77%	↓
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	\$13,224,204	\$4,150,000	\$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	310.22	131.00	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	\$2,847,772	\$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	\$997,000	\$925,000	\$925,000	\$925,000	\$925,000	N/A
8. Unrestricted Net Assets	\$5,563,803	\$6,437,234	\$7,135,742	\$7,261,506	\$7,508,321	\$9,506,435	\$10,408,164	\$10,483,184	\$10,558,164	\$10,633,164	\$10,708,164	N/A
9. Annual Capital Asset Expenditure	\$457,275	\$689,156	\$613,277	\$3,828,671	\$2,415,541	\$1,013,515	\$2,929,563	\$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	22.943	22.943	22.943	22.943	22.943	↑
11. Annual Debt Service Coverage (x)	1.48	4.46	3.12	3.70	5.48	8.53	23.78	20.00	20.00	20.00	20.00	↑
12. Annual Debt Service/Revenue (%)	6.30%	5.95%	5.14%	6.97%	7.33%	9.38%	6.08%	5.50%	5.50%	5.45%	5.40%	↓
13. Average Annual Effective Interest Rate (%)	6.00%	5.90%	3.53%	4.04%	4.15%	2.30%	0.72%	4.00%	4.00%	4.00%	4.00%	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	1.08%	5.34%	115.48%	56.15%	26.29%	40.38%	62.89%	5.64%	5.64%	5.66%	5.68%	↑
15. Average Age of Facility (years)	21	19	27	28	28	19	20	20	20	20	20	↓