

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:  
\_4\_/\_26\_/\_16\_

PROVIDER(S): SOLHEIM LUTHERAN HOME

CCRC(S): SOLHEIM LUTHERAN HOME

RECEIVED  
MAY 02 2016

CONTINUING CARE  
CONTRACTS BRANCH

PROVIDER CONTACT PERSON: ANTONIO DAVILA

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



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

- ✓ Annual Report Checklist.
- ✓ Annual Provider Fee in the amount of: \$ 5,732.00
  - If applicable, late fee in the amount of: \$ \_\_\_\_\_
- ✓ Certification by the provider's **Chief Executive Officer** that:
  - ✓ The reports are correct to the best of his/her knowledge.
  - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ✓ The provider is maintaining the required *liquid* reserves and, *when applicable*, the required refund reserve.
- ✓ Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- ✓ Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).
- ✓ "Continuing Care Retirement Community Disclosure Statement" for *each* community.
- ✓ Form 7-1, "Report on CCRC Monthly Service Fees" for *each* community.
- Form 9-1, "Calculation of Refund Reserve Amount", *if applicable*.
- Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.



2236 merton avenue  
los angeles  
(eagle rock)  
california  
90041-1915

323 257 7518

fax 323 255 3544

www.solheimlutheran.org

board of directors

Paul Jacques  
*Chair*

Dr. Jill M. Brink, Ph.D.  
*Vice Chair*

Annette Brende, RN, MBA  
*Secretary*

Adam Sisson, CPA  
*Treasurer*

Joel Miller,  
*Immediate Past Chair*

Audrey Bahr

Jim Barber

Paul Egge

Dr. Ralph Jung

Tracy King

Mary McCorkle

Pastor Kathleen Richter

Alexandra Smyser, Esq.

Susan Stark

David C. Starleaf, Esq.

Masa Suzuki

Jim Tranquada

Rev. Dr. R. Guy Erwin  
*Bishop, Southwest CA Synod*

Nisa Saraj  
*Resident Representative*

James W. Graunke  
*Executive Director*

Antonio Davila  
*CFO*

April 26, 2016

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

RE: 2015 Annual Report

Dear Ms. Nakatomi:

Via this letter, I certify that:

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

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

Sincerely,

Jim Graunke  
Executive Director



providing abundant living for older adults

comfort, care, dignity



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
12/1/2015

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).

<b>PRODUCER</b> Lutheran Trust, Inc. 1500 Wall St. Saint Charles, MO 63303	<b>CONTACT NAME:</b> Maliea K. Johnson		
	<b>PHONE (A/C, No, Ext):</b> (800) 200-7257	<b>FAX (A/C, No):</b> (866) 608-0600	
<b>E-MAIL ADDRESS:</b> Maliea@LTCAM.com			
<b>INSURED</b>  Solheim Lutheran Home 2236 Merton Avenue Mr. Antonio Davila Los Angeles, CA 90041-1915	<b>INSURER(S) AFFORDING COVERAGE</b>		<b>NAIC #</b>
	<b>INSURER A:</b> GuideOne Mutual Insurance Company		15032
	<b>INSURER B:</b> GuideOne Specialty Mutual Insurance Company		14559
	<b>INSURER C:</b> Arch Specialty Ins. Company		21199
	<b>INSURER D:</b>		
	<b>INSURER E:</b>		
<b>INSURER F:</b>			

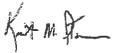
**COVERAGES**                      **CERTIFICATE NUMBER:**                      **REVISION NUMBER:**

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
	<b>COMMERCIAL GENERAL LIABILITY</b> <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR  GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:						EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$
A	<b>AUTOMOBILE LIABILITY</b> <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS <input checked="" type="checkbox"/> HCPD \$500 Comp <input checked="" type="checkbox"/> \$500 Coll			6011-077	12/01/2015	12/01/2016	COMBINED SINGLE LIMIT (Ea accident) \$ <b>1,000,000</b> BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
	<b>UMBRELLA LIAB</b> <input type="checkbox"/> OCCUR <b>EXCESS LIAB</b> <input type="checkbox"/> CLAIMS-MADE DED    RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N	N/A				PER STATUTE    OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
B	<b>Property</b>			1260-492	12/01/2015	12/01/2016	<b>Blanket Limit</b> <b>21,984,300</b>
C	<b>Directors &amp; Officers</b>			NFP0093375-03	12/01/2015	12/01/2016	<b>D&amp;O with EPLI &amp; FID</b> <b>1,000,000</b>

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

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

<b>CERTIFICATE HOLDER</b>  State of California Department of Social Services 744 P Street, MS 8-3-90 Sacramento, CA 95814	<b>CANCELLATION</b>  SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.  AUTHORIZED REPRESENTATIVE 
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# CERTIFICATE OF LIABILITY INSURANCE

SOLHLUT-01 MJOHNSON

DATE (MM/DD/YYYY)

11/26/2014

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	<b>PHONE (A/C, No, Ext):</b> (800) 200-7257	<b>FAX (A/C, No):</b> (866) 608-0600
<b>E-MAIL ADDRESS:</b> maliea@lcam.com		
<b>INSURER(S) AFFORDING COVERAGE</b>		<b>NAIC #</b>
<b>INSURER A :</b> GuideOne Mutual Insurance Company		<b>15032</b>
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<b>INSURER C :</b> Arch Specialty Ins. Company		<b>21199</b>
<b>INSURER D :</b>		
<b>INSURER E :</b>		
<b>INSURER F :</b>		

**INSURED**

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

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

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B	<b>Property</b>		1260-492	12/01/2014	12/01/2015	<b>Blanket Limit</b> 21,627,000
C	<b>Directors &amp; Officers</b>		NFP0093375-01	12/01/2014	12/01/2015	<b>D&amp;O with EPLI &amp; FID</b> 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

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**CERTIFICATE HOLDER****CANCELLATION**

State of California Department of Social Services  
 744 P Street, MS 8-3-90  
 Sacramento, CA 95814

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

AUTHORIZED REPRESENTATIVE

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*Financial Statements*

**SOLHEIM LUTHERAN HOME**

For the Years Ended December 31, 2015 and 2014

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**SOLHEIM LUTHERAN HOME  
DECEMBER 31, 2015**

**BOARD MEMBERS AND OFFICERS**

CHAIR	Paul Jacques
VICE CHAIR	Dr. Jill M. Brink, Ph.D.
SECRETARY	Annette Brende, RN, MBA
TREASURER	Adam Sisson, CPA
IMMEDIATE PAST CHAIR	Joel Miller
EXECUTIVE DIRECTOR	James W. Graunke
CHIEF FINANCIAL OFFICER	Antonio Davila
MEMBER	Audrey Bahr
MEMBER	Jim Barber
MEMBER	Paul Egge
MEMBER	Dr. Ralph Jung, M.D.
MEMBER	Tracy King
MEMBER	Mary McCorkle
MEMBER	Rev. Kathleen Richter
MEMBER	Alexandra Smyser
MEMBER	Susan Stark
MEMBER	David C. Starleaf, Esq.
MEMBER	Masa Suzuki
MEMBER	James Tranquada
BISHOP, SOUTHWEST CALIFORNIA SYNOD, ELCA	Rev. R. Guy Erwin
RESIDENT REPRESENTATIVE	Nisa Saraj

**MARTIN WERBELOW LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101  
TEL: (626) 577-1440 FAX: (626) 577-1082

**RECEIVED**  
MAY 02 2016

CONTINUING CARE  
CONTRACTS BRANCH

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Solheim Lutheran Home  
Los Angeles, California

We have audited the accompanying financial statements of Solheim Lutheran Home (a nonprofit health care entity), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

**Auditor's Responsibility**

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

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

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

To the Board of Directors of  
Solheim Lutheran Home

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solheim Lutheran Home as of December 31, 2015 and 2014, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Martin Werbelow CPA*

April 26, 2016

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2015 AND 2014**

**ASSETS**

	<b>2015</b>	<b>2014</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,139,906	\$ 1,543,757
Cash and investments held by bond indenture trustee for current debt payments	578,336	561,728
Accounts receivable, net (Note 2)	739,522	624,391
Contribution receivable (Note 3)	14,000	300,000
Other receivables	66,188	42,617
Prepaid expenses and other current assets	314,400	154,485
<b>Total Current Assets</b>	<b>3,852,352</b>	<b>3,226,978</b>
<b>Assets Whose Use is Limited</b>		
Cash and investments held by bond indenture trustee (Note 4)	860,276	848,877
Less portion available to satisfy current debt service	578,336	561,728
Noncurrent portion	281,940	287,149
Investments - board designated and temporarily restricted (Note 6)	1,430,781	1,364,764
<b>Total Assets Whose Use is Limited</b>	<b>1,712,721</b>	<b>1,651,913</b>
<b>Other Assets</b>		
Split-interest agreement, net (Note 5)	1,809	14,664
Investments (Note 6)	3,617,765	2,695,872
Facilities and equipment, net (Note 8)	4,500,702	4,754,014
Real estate held for investment and future expansion, net (Note 9)	1,397,803	1,397,803
Deferred costs and other assets (Note 10)	371,438	409,808
<b>Total Other Assets</b>	<b>9,889,517</b>	<b>9,272,161</b>
<b>Total Assets</b>	<b>\$15,454,590</b>	<b>\$14,151,052</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**  
(continued)

**LIABILITIES AND NET ASSETS**

	<b>2015</b>	<b>2014</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 262,039	\$ 311,556
Accrued payroll and payroll taxes	223,105	196,541
Accrued vacation and personal time	222,686	236,696
Long-term debt, current portion (Note 11)	611,272	589,385
Refundable entrance fees, current	253,641	174,106
Deferred revenue - other, current	36,947	-
Accrued interest	10,625	14,162
<b>Total Current Liabilities</b>	<b>1,620,315</b>	<b>1,522,446</b>
<b>Other Liabilities</b>		
Long-term debt, net of current portion (Note 11)	1,127,939	1,739,251
Refundable entrance fees, long-term	21,160	25,625
Deferred revenue - other, net of current portion	162,356	-
Deferred revenue - entrance fees	3,063,792	2,020,835
<b>Total Other Liabilities</b>	<b>4,375,247</b>	<b>3,785,711</b>
<b>Total Liabilities</b>	<b>5,995,562</b>	<b>5,308,157</b>
<b>Net Assets</b>		
Unrestricted net assets		
General Fund	8,012,439	7,163,467
Board Designated Fund for Benevolence	1,344,407	1,264,408
Board Designated Fund for Capital Replacement	50,004	50,353
<b>Total Unrestricted Net Assets</b>	<b>9,406,850</b>	<b>8,478,228</b>
Temporarily restricted net assets	52,178	364,667
<b>Total Net Assets</b>	<b>9,459,028</b>	<b>8,842,895</b>
<b>Total Liabilities and Net Assets</b>	<b>\$15,454,590</b>	<b>\$14,151,052</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>Changes in Unrestricted Net Assets</b>		
<b>Operating Revenues</b>		
Resident fees - Skilled Nursing	\$ 6,260,893	\$ 6,131,935
Resident fees - Residential	967,027	731,699
Resident fees - Assisted Living	1,187,464	1,238,108
Resident fees - Memory Care	2,043,163	1,986,111
Ancillary services to residents	597,444	614,655
Other monthly fees	39,169	38,468
Entrance fees earned	628,527	585,694
Processing fees	15,500	5,000
Interest and dividends	143,383	96,008
Contributions - bequests	34,357	-
Contributions - other	127,718	104,912
Net realized gains on investments	12,648	160,232
Net rental loss (Note 13)	(38,863)	(40,624)
Other income	12,957	29,894
Net assets released from restrictions	369,570	42,838
<b>Total Operating Revenues</b>	<b>12,400,957</b>	<b>11,724,930</b>
<b>Operating Expenses</b>		
<b>Departmental Expenses</b>		
Skilled Nursing	2,652,528	2,640,464
Residential, Assisted Living, and Memory Care	1,610,176	1,646,155
Ancillary services	452,473	418,528
Maintenance	797,641	860,430
Housekeeping	264,592	222,310
Laundry	134,327	203,082
Dietary	1,529,373	1,459,519
Social services	66,327	64,162
Activities and transportation	538,827	550,685
In-service education	83,598	87,440
Administration	1,766,390	1,583,482
Marketing and fund development	547,027	594,548
<b>Total Departmental Expenses</b>	<b>10,443,279</b>	<b>10,330,805</b>
<b>Other Expenses</b>		
Depreciation	659,967	615,540
Amortization	38,370	38,370
Interest expense	61,048	80,340
Equipment leases	17,279	17,405
Property taxes and insurance	26,501	27,056
<b>Total Other Expenses</b>	<b>803,165</b>	<b>778,711</b>
<b>Total Operating Expenses</b>	<b>11,246,444</b>	<b>11,109,516</b>
<b>Change in Unrestricted Net Assets from Operations</b>	<b>1,154,513</b>	<b>615,414</b>
<b>Other Changes in Unrestricted Net Assets</b>		
Net unrealized loss on investments	(205,484)	(29,001)
Gain (loss) on disposal of property and equipment	(20,407)	581,318
<b>Change in Unrestricted Net Assets</b>	<b>928,622</b>	<b>1,167,731</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
(continued)

	<b>2015</b>	<b>2014</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions		
Bequest	\$ 14,000	\$ -
Charity care	16,217	17,230
Facilities and equipment	13,325	17,953
Activities and other programs	26,394	37,161
<b>Contributions</b>	<b>69,936</b>	<b>72,344</b>
Change in Value of Split-interest Agreement	(12,855)	(7,453)
Net Assets Released from Restrictions		
Net assets released from time restrictions	(300,000)	-
Funds used for charity care	(28,312)	(5,085)
Funds used for facilities and equipment	(17,033)	(4,920)
Funds used for activities and other programs	(24,225)	(32,833)
<b>Net Assets Released from Restrictions</b>	<b>(369,570)</b>	<b>(42,838)</b>
<b>Change in Temporarily Restricted Net Assets</b>	<b>(312,489)</b>	<b>22,053</b>
<b>Change in Net Assets</b>	<b>616,133</b>	<b>1,189,784</b>
<b>Net Assets, Beginning of Year</b>	<b>8,842,895</b>	<b>7,653,111</b>
<b>Net Assets, End of Year</b>	<b>\$ 9,459,028</b>	<b>\$ 8,842,895</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>Unrestricted Net Assets</b>		
<b>Unrestricted Net Assets in General Fund</b>		
Balance, beginning of year	\$ 7,163,467	\$ 6,626,573
Change in General Fund net assets	928,622	1,167,731
Transfers to Board Designated Fund for Benevolence	(183,425)	(600,000)
Transfer (to)/from Board Designated Fund for Capital Replacement	349	(161)
Transfer of investments (earnings)/loss (to)/from Board Designated Fund for Benevolence	103,426	(30,676)
<b>Balance, End of Year</b>	<b>8,012,439</b>	<b>7,163,467</b>
<b>Board Designated Fund for Benevolence</b>		
Balance, beginning of year	1,264,408	633,732
Transfers from General Fund	183,425	600,000
Investment (earnings)/loss on Board Designated Fund for Benevolence	(103,426)	30,676
<b>Balance, End of Year</b>	<b>1,344,407</b>	<b>1,264,408</b>
<b>Board Designated Fund for Capital Replacement</b>		
Balance, beginning of year	50,353	50,192
Transfer (to)/from General Fund	(349)	161
<b>Balance, End of Year</b>	<b>50,004</b>	<b>50,353</b>
<b>Total Unrestricted Net Assets, End of Year</b>	<b>\$ 9,406,850</b>	<b>\$ 8,478,228</b>
 <b>Temporarily Restricted Net Assets</b>		
Balance, beginning of year	364,667	342,614
Change in temporarily restricted net assets	(312,489)	22,053
<b>Balance, End of Year</b>	<b>\$ 52,178</b>	<b>\$ 364,667</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from residents for monthly services	\$11,266,774	\$10,714,217
Cash received from residents for entrance fees	1,848,000	882,500
Interest and dividends received	143,383	96,008
Contributions received	518,011	1,377,256
Cash paid to employees and suppliers	(10,721,937)	(10,507,706)
Interest paid on long-term debt	(92,293)	(113,127)
Other	(28,711)	123,379
	<b>2,933,227</b>	<b>2,572,527</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(4,123,023)	(1,805,854)
Sales of investments	2,942,277	1,234,429
Net cash transferred to trustee	(11,399)	(9,344)
Purchases of facilities and equipment	(427,062)	(843,642)
Proceeds from sale of property	-	790,941
	<b>(1,619,207)</b>	<b>(633,470)</b>
<b>Cash Flows from Financing Activities</b>		
Entrance fees refunded	(128,446)	(228,986)
Principal payment on long-term debt	(589,425)	(567,672)
	<b>(717,871)</b>	<b>(796,658)</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>596,149</b>	<b>1,142,399</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>1,543,757</b>	<b>401,358</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 2,139,906</b>	<b>\$ 1,543,757</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
(continued)

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Change in Net Assets to Net</b>		
<b>Cash Provided by Operating Activities</b>		
Change in net assets	\$ 616,133	\$ 1,189,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	659,967	615,540
Amortization of bond issuance costs	38,370	38,370
Amortization of entrance fees	(628,527)	(585,694)
Amortization of deferred revenue - other	(25,697)	-
Provision for doubtful accounts	11,936	9,729
Net realized gains on investments	(12,648)	(160,232)
Net unrealized losses on investments	205,484	29,001
(Gain) loss on sale of property	20,407	(581,318)
Change in value of split-interest agreement	12,855	7,453
(Increase) decrease in:		
Accounts receivable	(127,067)	49,674
Contribution receivable	286,000	1,200,000
Other receivables	(23,571)	65,781
Prepaid expenses and other current assets	(159,915)	(18,679)
Increase (decrease) in:		
Accounts payable	(49,517)	(140,380)
Accrued payroll and payroll taxes	26,564	22,446
Accrued vacation and personal time	(14,010)	4,173
Deferred revenue - other	225,000	-
Accrued interest	(3,537)	(3,321)
Deferred revenue - entrance fees and refundable entrance fees	1,875,000	830,200
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 2,933,227</b>	<b>\$ 2,572,527</b>

The accompanying notes are an integral part of these statements.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

**Mission Statement**

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

**General**

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

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

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

**Basis of Accounting**

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

**Basis of Presentation**

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

**Cash and Cash Equivalents**

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

**Investments**

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

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

**Investments (continued)**

Investment management fees were approximately \$38,000 and \$18,000, for December 31, 2015 and 2014, respectively.

**Accounts Receivable**

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

**Contribution Receivable**

The contribution receivable at December 31, 2015 and 2014, represents an estate gift that is due and not received as of the financial statement date. Contributions expected to be collected in one year are recorded as revenue and a receivable at net realizable value, which approximates fair value. No allowance for uncollectible contribution receivable is provided as management has determined that it is fully collectible.

**Facilities and Equipment**

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

**Deferred Revenue – Entrance Fees and Refundable Entrance Fees**

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

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

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

At December 31, 2015 and 2014, an estimated \$1,990,000 and \$1,098,000, respectively, was contractually refundable. These amounts represent the amount due to residents if all were to cancel their contracts as of December 31, 2015 and 2014 based on Solheim's refund policy. The contractually refundable amount is included in deferred revenue - entrance fees and refundable entrance fees (current and long-term) in the accompanying statements of financial position.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

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

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

If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. Solheim's computation has been made which indicated that as of December 31, 2015 and 2014, the estimated amounts received or to be received from current continuing care residents will exceed the estimated costs of providing future services and use of facilities to those residents. Consequently, no liability is shown on the statements of financial position at either date. For the years ended December 31, 2015 and 2014, the discount rate used for this calculation was 3% percent.

The California Health and Safety Code Section 1790 mandate a statutory reserve and a liquid asset requirement. The mandates were met for the years ending December 31, 2015 and 2014.

**Workers' Compensation and Liability Insurance**

Solheim is self-insured for workers' compensation. Solheim participates with other self-insured members with a California not-for-profit mutual benefit corporation. Each member is jointly and severally liable for the expenses and obligations of the group and for the workers' compensation liability of all members incurred while a member of the group. Solheim is required to pay an annual premium.

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

**Net Assets**

Solheim's net assets comprise the following:

**Unrestricted Net Assets**

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

- Board Designated Fund for Benevolence – to be used for supporting charitable care to residents. Effective January 1, 2014, the Board of Directors redesigned the fund to not function as an endowment.
- Board Designated Fund for Capital Replacement – created pursuant to the terms of the 2004 Refunding Revenue Bonds. Solheim is obligated to increase the reserve in future years in accordance with the increases in the consumer price index if its equipment purchases and the repair and maintenance expense of its facilities do not exceed the reserve amount.

**Temporarily Restricted Net Assets**

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

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

**Net Assets (continued)**

**Permanently Restricted Net Assets**

Permanently restricted net assets represent net assets that result from contributions and other inflows of assets whose use by Solheim is limited by donor-imposed restrictions that neither expire by passage of time, nor can be fulfilled and removed by actions of Solheim pursuant to those restrictions. Solheim had no permanently restricted net assets at December 31, 2015 or 2014.

**Contributions**

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

**Revenue Recognition**

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

Solheim reduces the monthly fee charged to residents below the full rate for those residents whose personal funds are not sufficient and who are not eligible for government assistance. The total subsidy provided was approximately \$197,000 for 7 residents in 2015 and approximately \$184,000 for 8 residents in 2014. These amounts are recorded as reductions in operating revenues in the accompanying statements of activities.

**Amortization**

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

**Advertising**

Solheim expenses advertising costs as they are incurred. Advertising costs expensed during 2015 and 2014 were approximately \$37,000 and \$42,000, respectively.

**Change in Unrestricted Net Assets from Operations (Performance Indicator)**

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

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

**Functional Expenses**

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

	<u>2015</u>	<u>2014</u>
Program services	\$ 9,032,629	\$ 9,465,318
General and administrative	2,078,178	1,475,433
Fundraising	<u>135,637</u>	<u>168,765</u>
	<u>\$ 11,246,444</u>	<u>\$ 11,109,516</u>

**Income Taxes**

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

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

**Reclassifications**

Certain amounts included in the 2014 financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2015 financial statements.

**Use of Estimates**

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

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 2 – Accounts Receivable**

Accounts receivable consists of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Monthly fees - private payers	\$ 236,428	\$ 211,233
Monthly fees - Medi-Cal	185,968	211,908
Monthly fees - Medicare	234,580	204,118
Other payors	112,646	92,232
Entrance fees	81,900	54,900
	<u>851,522</u>	<u>774,391</u>
Less allowance for uncollectible accounts	<u>112,000</u>	<u>150,000</u>
Accounts receivable, net	<u>\$ 739,522</u>	<u>\$ 624,391</u>

**Note 3 – Contribution Receivable**

The \$14,000 contribution receivable at December 31, 2015 is the estimated final distribution from an estate gift. The amount is expected to be collected within one year. The contribution receivable at December 31, 2014 was also related to the same estate gift. The entire \$300,000 was collected during 2015.

**Note 4 – Cash and Investments Held by Bond Indenture Trustee**

The following trust funds were held and invested at December 31, 2015 and 2014, by U.S. Bank, San Francisco, California Trustee for the 2004 Refunding Revenue Bonds and allocated for the following purposes:

	<u>2015</u>	<u>2014</u>
Bond Reserve Fund	\$ 747,727	\$ 749,277
Interest Fund	-	12,003
Principal Account	-	91,667
Revenue Fund	116,330	1,651
	<u>864,057</u>	<u>854,598</u>
Unrealized loss	<u>(3,781)</u>	<u>(5,721)</u>
	<u>860,276</u>	<u>848,877</u>
Less portion available to satisfy current debt service	<u>(578,336)</u>	<u>(561,728)</u>
Noncurrent portion	<u>\$ 281,940</u>	<u>\$ 287,149</u>

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 5 - Split-interest Agreement**

Solheim is the named trustee on an irrevocable split-interest agreement. The donor has made a contribution to Solheim in exchange for a promise by Solheim to pay fixed amounts for a specified time to the beneficiary (the life of the beneficiary). The assets contributed are recognized at fair value when received and a liability is recognized for the amounts due to the beneficiary at the present value of future cash flows using a discount rate prevalent at the date of the gift. The discount rate used was 0.36%.

The split-interest agreement comprises the following:

	<u>2015</u>	<u>2014</u>
Assets	\$ 27,816	\$ 42,209
Liabilities	(26,007)	(27,545)
	<u>\$ 1,809</u>	<u>\$ 14,664</u>

**Note 6 – Investments**

Investments consist of the following as of December 31, 2015 and 2014:

<u>2015</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts	\$ 300,026	\$ 300,026
Certificates of deposit	617,632	619,004
Corporate bonds	596,921	591,254
Mutual funds	3,106,311	3,229,931
Exchange-traded funds	1,287,932	1,373,832
Total	5,908,822	6,114,047
Less assets whose use is limited:		
Cash and investments held by bond indenture trustee	(860,276)	(864,057)
Investments - board designated for benevolence	(1,344,407)	(1,000,575)
Investments - board designated for capital replacement	(50,004)	(50,000)
Investments - temporarily restricted	(36,370)	(50,003)
Total	<u>\$ 3,617,765</u>	<u>\$ 4,149,412</u>

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 6 – Investments (continued)**

<u>2014</u>	<u>Aggregate Market Value</u>	<u>Cost</u>
Money market accounts	\$ 823,642	\$ 823,642
Certificates of deposit	1,131,254	1,134,032
Corporate bonds	1,123,462	1,117,843
Equity securities	1,831,155	1,180,958
Total	4,909,513	4,256,475
Less assets whose use is limited:		
Cash and investments held by bond indenture trustee	(848,877)	(854,598)
Investments - board designated for benevolence	(1,264,408)	(1,000,575)
Investments - board designated for capital replacement	(50,353)	(50,000)
Investments - temporarily restricted	(50,003)	(50,003)
Total	<u>\$ 2,695,872</u>	<u>\$ 2,301,299</u>

**Note 7 – Fair Value Measurements**

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

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

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

**Level 2** Inputs to the valuation methodology include:

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

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

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

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 7 – Fair Value Measurements (continued)**

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

There have been no changes in the methodologies used at December 31, 2015 and 2014.

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

*Certificates of deposit:* valuation based on an independent pricing service and based on recent sales of similar securities and other observable market data.

*Mutual funds:* valued at the net asset value (NAV) of shares held at year-end. The NAV is quoted at market prices in active markets for identical assets.

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

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

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

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2015:

	<b>Assets at Fair Value at December 31, 2015</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments				
Money market accounts	\$ 179,726	\$ 179,726	\$ -	\$ -
Certificates of deposit	49,561	-	49,561	-
Mutual funds	3,106,311	3,106,311	-	-
Exchange-traded funds	1,287,932	1,287,932	-	-
Corporate bonds	425,016	-	425,016	-
Cash and investments held by bond indenture trustee				
Money market accounts	120,300	120,300	-	-
Certificates of deposit	568,071	-	568,071	-
Corporate bonds	171,905	-	171,905	-
	<b>\$ 5,908,822</b>	<b>\$ 4,694,269</b>	<b>\$ 1,241,553</b>	<b>\$ -</b>

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 7 – Fair Value Measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2014:

	<b>Assets at Fair Value at December 31, 2014</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments				
Money market accounts	\$ 711,530	\$ 711,530	\$ -	\$ -
Certificates of deposit	565,422	-	565,422	-
Equity securities	1,831,155	1,831,155	-	-
Corporate bonds	952,529	-	952,529	-
Cash and investments held by bond indenture trustee				
Money market accounts	112,112	112,112	-	-
Certificates of deposit	565,832	-	565,832	-
Corporate bonds	170,933	-	170,933	-
	<b>\$ 4,909,513</b>	<b>\$ 2,654,797</b>	<b>\$ 2,254,716</b>	<b>\$ -</b>

**Note 8 – Facilities and Equipment**

Facilities and equipment at December 31, 2015, and 2014 consist of the following:

	<b>2015</b>	<b>2014</b>
Land	\$ 177,089	\$ 177,089
Land improvements	835,975	833,775
Buildings and building improvements	11,267,216	11,189,223
Furniture, fixtures and equipment	3,371,457	3,329,026
Construction in progress	37,468	162,189
	15,689,205	15,691,302
Less accumulated depreciation	11,188,503	10,937,288
Total	<b>\$ 4,500,702</b>	<b>\$ 4,754,014</b>

In October of 2013, the Board approved the sale of property located at 2265 Fair Park Avenue, Los Angeles, California. The property was sold on October 30, 2014 for \$800,000. The sale resulted in a gain of \$581,318.

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 9 – Real Estate Held for Investment and Future Expansion**

Real estate held for investment and future expansion at December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,397,803	\$ 1,397,803
Buildings	150,000	150,000
	<u>1,547,803</u>	<u>1,547,803</u>
Less accumulated depreciation	150,000	150,000
Total	<u>\$ 1,397,803</u>	<u>\$ 1,397,803</u>

The property is contiguous to the current campus and is located at 2221 Fair Park Avenue. It is currently leased (Note 13).

**Note 10 – Deferred Costs and Other Assets**

Deferred costs and other assets consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Deferred costs related to 2004 Refunding Revenue Bonds:		
Bond issue costs, net of amortization	\$ 28,289	\$ 43,043
Prepaid insurance costs, net of amortization	45,269	68,885
Deferred costs related to future expansion	<u>297,880</u>	<u>297,880</u>
Total	<u>\$ 371,438</u>	<u>\$ 409,808</u>

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

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

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**Note 11 – Long-Term Debt**

The outstanding balances on long-term debt are as follows at December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Note payable to California Health Facilities Financing Authority (2004 Refunding Revenue Bonds), bearing interest rates ranging from 1.75% to 3.85% per annum, payable semi-annually on May 1 and November 1 of each year. Principal is payable annually through 2017.	\$ 1,160,000	\$ 1,710,000
Note payable to Mission Investment Fund (the Fund) of the Evangelical Lutheran Church in America paid in monthly installments of \$5,607 including interest at 4.625% per annum are required. The interest rate and payment amounts will be reviewed again by the Fund on November 1, 2016, and 2021. The note is secured by certain real estate purchased by Solheim in 2006 and matures on December 1, 2026.	579,211	618,636
	1,739,211	2,328,636
Less current portion	611,272	589,385
	\$ 1,127,939	\$ 1,739,251

Maturities of long-term debt are as follows:

<u><b>Years Ending December 31,</b></u>	
2016	\$ 611,272
2017	633,260
2018	45,373
2019	47,516
2020	49,761
Thereafter	352,029
	\$ 1,739,211

The facilities and gross receipts of Solheim serve as security for the 2004 Refunding Revenue Bonds. Solheim is required to be in compliance with certain financial covenants. The financial covenants include debt service coverage ratio, current ratio, and days cash on hand ratio. Solheim was in compliance with its financial covenants for the year ended December 31, 2015.

**SOLHEIM LUTHERAN HOME  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**Note 12 – Retirement Plan**

Solheim provides a tax deferred annuity plan (403(b) Plan) for the benefit of its eligible employees. Solheim's matching contribution to the 403(b) Plan is discretionary and is determined by its Board of Directors. For both 2015 and 2014, the matching percentage was 2%. In addition, employees, at their discretion, may direct a portion of their monthly benefit allowance provided by Solheim, to their 403(b) Plan account.

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

For the years ended December 31, 2015 and 2014, Solheim's contributions to these plans were approximately \$455,000 and \$407,000, respectively.

**Note 13 – Net Rental Loss**

On November 13, 2006, Solheim acquired an adjacent property for investment and future expansion (Note 9). Concurrently with the purchase, Solheim entered into month-to-month lease agreement with the tenant of the property. The lease agreement calls for rental payments of \$1,500 per month.

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

	<u>2015</u>	<u>2014</u>
Rental income	\$ 18,000	\$ 18,000
Rental expenses		
Interest	27,708	29,466
Insurance	836	837
Property tax	<u>28,319</u>	<u>28,321</u>
Total rental expenses	<u>56,863</u>	<u>58,624</u>
Net rental loss	<u>\$ (38,863)</u>	<u>\$ (40,624)</u>

**Note 14 – Commitments and Contingencies**

Solheim leases office equipment under operating lease agreements. The leases have various terms and maturity dates and require monthly lease payments. Lease expenses for 2015 and 2014 were \$17,279 and \$17,405, respectively.

**SOLHEIM LUTHERAN HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**Note 14 – Commitments and Contingencies (continued)**

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2016	\$ 16,236
2017	15,662
2018	9,338
2019	3,204
2020	<u>267</u>
	<u>\$ 44,707</u>

Solheim is subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation. Government activity, with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient revenues. Management believes any actions that may result from investigations of noncompliance with laws and regulations will not have a material effect on Solheim's future financial position or results of operations.

**Note 15 – Concentrations**

Solheim maintains its unrestricted cash deposits with one financial institution. The deposits with the financial institution are insured up to \$250,000 with the FDIC. At December 31, 2015, Solheim's uninsured cash balance totaled approximately \$681,000.

Approximately 19% and 24% of Solheim's total operating revenue for the years ended December 31, 2015, and 2014, respectively, were funded pursuant to federal, state, and local assistance programs, the continuation of which is dependent upon government policies. Revenues received under these programs are partially based upon cost reimbursement principles that are subject to government audit.

**Note 16– Subsequent Events**

Management has evaluated for subsequent events through April 26, 2016, the issuance date of the financial statements. No subsequent events requiring disclosure were noted.

*Continuing Care Reserve Report Schedules*

**SOLHEIM LUTHERAN HOME**

For the Year Ended December 31, 2015

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

**RECEIVED**  
MAY 02 2016  
CONTINUING CARE  
CONTRACTS BRANCH

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Solheim Lutheran Home  
Los Angeles, California

We have audited the accompanying continuing care reserve report schedules of Solheim Lutheran Home (Solheim) which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 (Schedules) as of and for the year ended December 31, 2015.

### **Management's Responsibility for the Reports**

Management is responsible for the preparation and fair presentation of these Schedules in accordance with the provisions of the California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

---

**Opinion**

In our opinion, the Schedules present fairly, in all material respects, the continuing care reserve requirements of Solheim as of December 31, 2015, in accordance with the provisions of the California Health and Safety Code Section 1792.

**Basis of Accounting**

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

**Restriction on Use**

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



April 26, 2016



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

	(b)	(c)	(d)	(e)
red	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))
				\$0
				\$0
				\$0
				\$0
				\$0
				\$0
				\$0
				\$0
				\$0
<b>TOTAL:</b>	\$0	\$0	0	\$0

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

include voluntary payments made to pay down principal.

LUTHERAN HOME



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

	<u>Amounts</u>	<u>TOTAL</u>
Expenses from financial statements		<u>\$11,246,444</u>
Long-term debt (see instructions)	<u>\$92,293</u>	
Interest premiums paid for long-term debt (see instructions)	<u>\$0</u>	
	<u>\$659,967</u>	
	<u>\$38,370</u>	
Expenses during the fiscal year for services to persons who did not have a contract	<u>\$6,645,576</u>	
Expenses approved by the Department	<u>                    </u>	
		<u>\$7,436,206</u>
Expenses		<u>\$3,810,238</u>
Section 365 and enter the result.		<u>\$10,439</u>
Section 75 and enter the result. This is the provider's operating expense reserve amount.		<u><u>\$782,926</u></u>

OPERATING EXPENSES

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

Provider Name: SOLHEIM LUTHERAN HOME  
 Fiscal Year Ended: 12/31/2015

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2015 and are in compliance with those requirements.

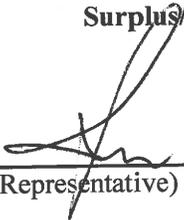
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$681,718</u>
[2] Operating Expense Reserve Amount	<u>\$782,926</u>
[3] <b>Total Liquid Reserve Amount:</b>	<b><u>\$1,464,644</u></b>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$116,330</u>	<u>\$2,139,906</u>
[5] Investment Securities		<u>\$3,617,765</u>
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$743,946</u>	(not applicable)
[10] Other:		
<u>(describe qualifying asset)</u>		
<b>Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]</b>	<u>\$860,276 [12]</u>	<u>\$5,757,671</u>
<b>Reserve Obligation Amount: [13]</b>	<u>\$681,718 [14]</u>	<u>\$782,926</u>
<b>Surplus/ (Deficiency): [15]</b>	<u>\$178,558 [16]</u>	<u>\$4,974,745</u>

Signature:

  
 \_\_\_\_\_  
 (Authorized Representative)

Date: 04/26/2016

Director of Finance & CFO  
 \_\_\_\_\_  
 (Title)

**FORM 5-5  
ADDITIONAL DISCLOSURE**

**■ Description of All Reserves Maintained**

	December 31	
	2015	2014
<b><u>Funds Held by Trustees</u></b>		
<i>2004 Refunding Revenue Bond Funds:</i>		
Payment of interest	\$0	\$10,740
Revenue fund	\$116,330	\$1,651
Payment of principal	\$0	\$91,667
Bond reserve fund	\$743,946	\$744,819
	\$860,276	\$848,877
Less: Held for current debt payments	\$578,336	\$561,728
	\$281,940	\$287,149
<b><u>Board Designated Funds</u></b>		
Benevolence	\$1,344,407	\$1,264,408
Capital replacement	\$50,004	\$50,353
	\$1,394,411	\$1,314,761
<b><u>Other Limited Uses</u></b>		
Temporarily Restricted Fund	\$36,370	\$50,003
<b>Total Limited Use Assets</b>	\$1,712,721	\$1,651,913
Status: These funds are fully funded.		

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

- 2004 Bond Project funds are reserved to finance the construction, renovation, remodeling, and other capital projects. \$614,440 were expended during the fiscal year for the debt service.
- The Benevolence fund will be used to support charitable care for residents.
- The Capital Replacement fund is set aside to comply with the terms of the 2004 Refunding Revenue Bonds.
- The Temporarily Restricted fund is set aside for acquisition of facilities and equipment, charity care for residents, activity and other programs for the residents.

**■ Per Capita Cost of Operations**

Total Operating Expenses (Form 5-4, Line 1)	\$11,246,444
Mean Number of All Residents (Form 1-1, Line 10)	151.5
Average Per Capita Cost Annual	\$74,234
Divided By Days Per Year	365
Average Per Capita Cost Daily	\$203

**PROVIDER:**     SOLHEIM LUTHERAN HOME

**TWO-WAY RECONCILIATION**

**TOTAL**

Received during the fiscal year for services to persons who did not have a care contract reported on Form 5-4, Line 2(e)	<u>\$6,645,576</u>
Received during the fiscal year for services to persons who did have a continuing contract	<u>\$4,621,198</u>
Received from residents for monthly services reported on Statement of Cash Direct Method	<u><u>\$11,266,774</u></u>

LUTHERAN HOME

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

Date Prepared: 04/28/16

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

**NUMBER OF UNITS:**

<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
APARTMENTS — STUDIO: <u>24</u>	ASSISTED LIVING: <u>30</u>
APARTMENTS — 1 BDRM: <u>7</u>	SKILLED NURSING: <u>76</u>
APARTMENTS — 2 BDRM: _____	SPECIAL CARE: <u>45</u>
COTTAGES/HOUSES: _____	DESCRIPTION: > <u>MEMORY CARE</u>
RLU OCCUPANCY (%) AT YEAR END: <u>90.3%</u>	> <u>HC UNITS OCCUPANCY (%) AT YEAR END: 94.0%</u>

**TYPE OF OWNERSHIP:**  NOT-FOR-PROFIT  FOR-PROFIT ACCREDITED?:  YES  NO BY: \_\_\_\_\_

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

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

**RANGE OF ENTRANCE FEES:** \$ 27,000 \$ 111,000 **LONG-TERM CARE INSURANCE REQUIRED?**  YES  NO

**HEALTH CARE BENEFITS INCLUDED IN CONTRACT:** DISCOUNTED RATES FOR RESIDENTS WITH CONTINUING CARE CONTRACT

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

**RESIDENT REPRESENTATIVE(S) TO THE BOARD** (briefly describe their involvement): > One resident representative to the Board is a voting member and one non-voting resident representative attends all meetings and presents a report regarding residents activities and other resident's concerns if any.

**FACILITY SERVICES AND AMENITIES**

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

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



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (Excluding amortization of entrance fee income)	11,224,119	10,437,161	10,831,254	11,228,137
<b>LESS OPERATING EXPENSES</b> (Excluding depreciation, amortization, and interest)	10,727,780	10,214,461	10,375,266	10,487,059
<b>NET INCOME FROM OPERATIONS</b>	496,339	222,690	455,988	741,078
<b>LESS INTEREST EXPENSE</b>	(114,829)	(98,326)	(80,340)	(61,048)
<b>PLUS CONTRIBUTIONS</b>	148,736	1,462,751	147,750	531,645
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	42,756	352,536	552,317	(225,891)
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	573,002	1,939,651	1,075,715	985,784
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	699,623	651,030	653,514	1,719,554

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

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
CHFFA	1,160,000	1.75 - 3.85	12/01/04	11/01/17	2 Years
Mission Investment Fund	579,211	4.625	11/13/06	11/12/26	10 Years

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

	<b>2014 CCAC Medians 50<sup>th</sup> Percentile (optional)</b>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>DEBT TO ASSET RATIO</b>	38.78%	17.00%	12.29%	7.30%
<b>OPERATING RATIO</b>	98.85%	98.70%	96.08%	89.95%
<b>DEBT SERVICE COVERAGE RATIO</b>	2.62	3.58	3.01	4.82
<b>DAYS CASH ON HAND RATIO</b>	317	132	193	244

\*\*\*\*\*  
**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>
STUDIO	\$2,625	3.0	\$3,392	3.0	\$3,493	3.0	\$3,598
ONE BEDROOM	3,125	3.0	4,087	3.0	4,210	3.0	4,336
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING	3,990	3.0	5,159	3.0	5,314	3.0	5,473
SKILLED NURSING	258/Day	3.0	266/Day	2.0	271/Day	3.0	280/Day
SPECIAL CARE	5,045	3.0	5,196	3.0	5,043	3.0	5,195

\*\*\*\*\*  
**COMMENTS FROM PROVIDER:** > SKILLED NURSING DAILY RATES WERE RESTATED TO AVERAGE INSTEAD OF PREVALENT RATES.

>  
 >

**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.

**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>2,869 – 4,963</u>	<u>4,360–6,775</u>	<u>7,300-9,733</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>

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

[3] Indicate the date the fee increase was implemented: January 1, 2015  
 (If more than one increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

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

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

**PROVIDER: SOLHEIM LUTHERAN HOME**  
**COMMUNITY: \_\_\_\_\_**

# SOLHEIM LUTHERAN HOME

## 2015 Annual Report

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

Data used in determining rate adjustments:

- 2014 Actual Monthly Care Fees charged
- 2014 Projected Revenues and Expenses (7 months actual, 5 months estimated)
- 2015 Projected occupancy by pay source by level of care
- 2015 Projected staffing levels by department and payroll related expenses
- 2015 Projected non-payroll related expenses
- 2015 Percentage increase in monthly Social Security payments to residents if any
- 2014 Actual and 2015 projected interest rate paid on savings

The Corporation is required by its loan documents to charge fees that are sufficient to meet a specified net income to debt service ratio. After the budgeting process was completed for projected expenses, it was determined that 3.0% increase for all levels of care was necessary to achieve the specified ratio and to have a somewhat better than a break-even budget for 2015

Residential fee increases ranged from \$84 to \$145 per month  
Assisted living fees increases ranged from \$127 to \$197 per month  
Skilled nursing fees increases ranged from \$8 to \$10 per day. \$274 per month as an average.