

**SOLVANG LUTHERAN HOME, INC.**  
**AND AFFILIATE**  
**DECEMBER 31, 2022 AND 2021**  
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**

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

### **Report on Audit of the Financial Statements**

#### **Opinion**

We have audited the combined financial statements of Solvang Lutheran Home, Inc. and Affiliate (the Home), which comprise the combined statement of financial position as of December 31, 2022 and 2021, and the related combined statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

In our opinion, the accompanying 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, 2022 and 2021, and the 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.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Home and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Home's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Home's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **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 28-31 is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the combined financial statements. Such information

is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Bartlett, Pringh & Wolf, LLP*

Santa Barbara, California

May 22, 2023

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE  
COMBINED STATEMENT OF FINANCIAL POSITION  
As of December 31, 2022 and 2021**

	2022	2021
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 781,259	\$ 2,143,965
Accounts receivable (Note 2)	519,103	700,933
Other assets	224,097	205,997
Investments (Note 5)	1,285,564	341,978
Total current assets	2,810,023	3,392,873
Assets Whose Use is Limited:		
Donor restricted (Note 4)	129,528	51,693
Debt service required reserve (Note 4)	305,676	262,008
Held with trustee (Note 4)	336,999	336,699
Total limited use assets	772,203	650,400
Facilities and equipment, net (Note 6)	30,585,611	31,481,934
Other Assets:		
Investments (Note 5)	8,321,103	9,915,293
Income producing real estate (Note 2)	296,000	296,000
Total other assets	8,617,103	10,211,293
Total assets	\$ 42,784,940	\$ 45,736,500

*See accompanying notes*

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE  
COMBINED STATEMENT OF FINANCIAL POSITION  
As of December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,197,353	\$ 1,154,821
Interest payable	77,918	75,655
Current portion of long term debt (Note 9)	303,373	290,999
Total current liabilities	1,578,644	1,521,475
<b>Long Term Liabilities:</b>		
Unamortized accommodation fees - contract liabilities (Note 8)	2,638,028	2,895,146
Contingent refundable accommodation fee liability (Note 2)	2,519,000	2,519,000
Long term debt, net of current portion (Note 9)	8,823,017	9,128,568
Debt issuance costs, net of accumulated amortization (Note 7)	(262,714)	(277,829)
Total long term liabilities	13,717,331	14,264,885
Total liabilities	15,295,975	15,786,360
<b>Net Assets:</b>		
Without donor restrictions:		
Board designated (Note 10)	9,055,796	10,665,577
Undesignated	18,303,641	19,232,870
Total without donor restrictions	27,359,437	29,898,447
With donor restrictions (Note 11)	129,528	51,693
Total net assets	27,488,965	29,950,140
Total liabilities and net assets	\$ 42,784,940	\$ 45,736,500

*See accompanying notes*

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Changes in Net Assets Without Donor Restrictions:		
Operating Revenues:		
Skilled nursing facility	\$ 5,441,091	\$ 5,167,273
Residential care facility	5,845,800	5,516,574
Ancillary services	1,612,187	1,443,101
Accommodation fee amortization	880,368	888,277
Other income	307,778	312,836
Investment income	246,587	308,132
Contributions and grants	19,655	794,330
Net assets released from restrictions for operations	3,921	-
Total operating revenues	<u>14,357,387</u>	<u>14,430,523</u>
Operating Expenses:		
Health services	5,413,513	4,855,231
Dietary services	3,107,147	2,822,022
Housekeeping and laundry	858,248	775,099
Social services and activities	717,926	758,196
Transportation	132,662	125,430
Administration	1,751,717	1,652,753
Plant operations and utilities	1,316,899	1,243,931
Interest expense	382,682	330,317
Depreciation	1,288,601	1,285,735
Insurance and taxes	166,012	126,443
Total operating expenses	<u>15,135,407</u>	<u>13,975,157</u>
Income (loss) from operations	(778,020)	455,366
Non-operating revenues and other gains:		
Realized and unrealized gain (loss) on investments	(1,805,990)	523,442
Gain on disposal of assets	-	10,500
Gain on forgiveness of PPP loan	-	249,540
Net assets released from restrictions for facilities and equipment	45,000	796,938
Increase (decrease) in net assets without donor restrictions	<u>(2,539,010)</u>	<u>2,035,786</u>
Net assets without donor restrictions, beginning of year	<u>29,898,447</u>	<u>27,862,661</u>
Net assets without donor restrictions, end of year	<u>27,359,437</u>	<u>29,898,447</u>
Changes in Net Assets With Donor Restrictions:		
Contributions and grants	126,395	40,500
Investment income	361	476
Net assets released from restrictions	(48,921)	(796,938)
Increase (decrease) in net assets with donor restrictions	<u>77,835</u>	<u>(755,962)</u>
Net assets with donor restrictions, beginning of year	<u>51,693</u>	<u>807,655</u>
Net assets with donor restrictions, end of year	<u>129,528</u>	<u>51,693</u>
Total net assets, end of year	<u>\$ 27,488,965</u>	<u>\$ 29,950,140</u>

*See accompanying notes*



**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Cash received from:		
Residents	\$ 12,703,964	\$ 11,544,746
Community programs	315,256	288,636
Contributions received	110,550	332,142
Investment income received	246,587	308,132
Proceeds from nonrefundable accommodation fees	798,000	1,209,250
Reimbursements for services to non-residents	34,191	23,334
Proceeds from legal settlement	27,497	36,668
Other income	307,778	312,836
Cash paid to suppliers and employees	(13,437,169)	(12,340,456)
Interest paid	(365,867)	(317,703)
Net cash provided by operating activities	<u>740,787</u>	<u>1,397,585</u>
Cash Flows from Investing Activities:		
Purchase of investments	(1,313,107)	(385,306)
Proceeds from sale of investments	157,721	953,774
Facilities and equipment purchases	(394,801)	(923,776)
Proceeds from sale of facilities and equipment	-	10,500
Net cash used by investing activities	<u>(1,550,187)</u>	<u>(344,808)</u>
Cash Flows from Financing Activities:		
Accommodation fees refunded	(174,750)	(58,160)
Contributions and interest restricted for facilities and equipment	35,861	93,476
Repayment of long term debt	(292,614)	(277,624)
Net cash used by financing activities	<u>(431,503)</u>	<u>(242,308)</u>
Increase (decrease) in cash and cash equivalents	(1,240,903)	810,469
Cash and cash equivalents, beginning of year	<u>2,794,365</u>	<u>1,983,896</u>
Cash and cash equivalents, end of year	<u>\$ 1,553,462</u>	<u>\$ 2,794,365</u>

*See accompanying notes*

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2022**

(With Comparative Summarized Financial Information for the Year Ended December 31, 2021)

	<u>Skilled Nursing Facility</u>	<u>Residential Living</u>	<u>Activities and Other</u>	<u>Total Programs</u>	<u>Management and General</u>	<u>Total 2022</u>	<u>Total 2021</u>
<b>Salaries and Related Costs</b>							
Salaries	\$ 3,393,173	\$ 1,872,439	\$ 1,538,655	\$ 6,804,267	\$ 897,956	\$ 7,702,223	\$ 6,760,426
Payroll taxes	257,402	141,482	118,488	517,372	58,212	575,584	508,339
Employee benefits	578,148	353,710	227,504	1,159,362	205,581	1,364,943	1,341,565
Total salaries and related costs	<u>4,228,723</u>	<u>2,367,631</u>	<u>1,884,647</u>	<u>8,481,001</u>	<u>1,161,749</u>	<u>9,642,750</u>	<u>8,610,330</u>
<b>Other Operating Expenses</b>							
Bad debts	15,648	-	-	15,648	-	15,648	20,944
Charitable donations	-	-	43,000	43,000	3,750	46,750	60,100
Contract/outside services	255,290	102,650	22,208	380,148	35,780	415,928	685,668
Dietary - food	390,885	574,797	214,750	1,180,432	-	1,180,432	1,048,668
Dues and subscriptions	7,205	11,631	3,891	22,727	-	22,727	40,347
Emergency response	22,009	23,339	14,888	60,236	-	60,236	72,610
Insurance	49,872	76,269	28,728	154,869	3,776	158,645	132,703
Interest expense	-	382,682	-	382,682	-	382,682	330,317
Marketing and advertising	-	-	-	-	39,398	39,398	27,599
Occupational, physical and speech therapy	351,690	-	-	351,690	-	351,690	321,344
Other ancillary services	71,641	-	-	71,641	-	71,641	74,756
Other expenses	5,620	1,750	-	7,370	1,651	9,021	5,066
Outside training	10,390	7,441	5,527	23,358	2,560	25,918	22,376
Professional fees	64,038	-	-	64,038	215,918	279,956	245,945
R&M, equipment and small tools	39,970	42,824	9,700	92,494	-	92,494	74,607
Supplies	215,764	153,798	86,488	456,050	25,680	481,730	439,336
Taxes and licenses	881	738	439	2,058	86,284	88,342	72,664
Transportation	4,401	10,250	2,436	17,087	-	17,087	10,002
Travel expenses	640	2,507	123	3,270	-	3,270	1,080
Utilities and telephone	120,219	207,169	99,513	426,901	33,560	460,461	392,960
Expenses Before Depreciation	<u>5,854,886</u>	<u>3,965,476</u>	<u>2,416,338</u>	<u>12,236,700</u>	<u>1,610,106</u>	<u>13,846,806</u>	<u>12,689,422</u>
Depreciation	399,466	657,187	231,948	1,288,601	-	1,288,601	1,285,735
Total operating expenses	<u>\$ 6,254,352</u>	<u>\$ 4,622,663</u>	<u>\$ 2,648,286</u>	<u>\$ 13,525,301</u>	<u>\$ 1,610,106</u>	<u>\$ 15,135,407</u>	<u>\$ 13,975,157</u>

*See accompanying notes*

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2021**

(With Comparative Summarized Financial Information for the Year Ended December 31, 2020)

	<u>Skilled Nursing Facility</u>	<u>Residential Living</u>	<u>Activities and Other</u>	<u>Total Programs</u>	<u>Management and General</u>	<u>Total 2021</u>	<u>Total 2020</u>
<b>Salaries and Related Costs</b>							
Salaries	\$ 2,729,727	\$ 1,823,170	\$ 1,382,838	\$ 5,935,735	\$ 824,691	\$ 6,760,426	\$ 6,966,732
Payroll taxes	206,538	141,334	108,395	456,267	52,072	508,339	548,455
Employee benefits	543,500	343,714	255,250	1,142,464	199,101	1,341,565	1,331,762
Total salaries and related costs	<u>3,479,765</u>	<u>2,308,218</u>	<u>1,746,483</u>	<u>7,534,466</u>	<u>1,075,864</u>	<u>8,610,330</u>	<u>8,846,949</u>
<b>Other Operating Expenses</b>							
Bad debts	20,944	-	-	20,944	-	20,944	9,016
Charitable donations	-	-	57,100	57,100	3,000	60,100	52,229
Contract/outside services	511,828	91,222	61,103	664,153	21,515	685,668	369,515
Dietary - food	345,462	513,144	190,062	1,048,668	-	1,048,668	962,559
Dues and subscriptions	1,339	1,846	690	3,875	36,472	40,347	21,638
Emergency response	28,817	33,633	10,160	72,610	-	72,610	120,501
Insurance	39,865	65,594	23,154	128,613	4,090	132,703	144,619
Interest expense	-	330,317	-	330,317	-	330,317	269,842
Marketing and advertising	-	-	-	-	27,599	27,599	34,331
Occupational, physical and speech therapy	321,344	-	-	321,344	-	321,344	245,468
Other ancillary services	74,756	-	-	74,756	-	74,756	39,796
Other expenses	4,940	-	-	4,940	126	5,066	6,204
Outside training	8,501	6,226	4,508	19,235	3,141	22,376	18,135
Professional fees	60,311	-	-	60,331	185,614	245,945	222,299
R&M, equipment and small tools	30,660	36,963	6,984	74,607	-	74,607	62,495
Supplies	197,774	136,541	78,801	413,116	26,220	439,336	412,317
Taxes and licenses	695	2,159	611	3,465	69,199	72,664	69,894
Transportation	2,990	5,485	1,527	10,002	-	10,002	9,843
Travel expenses	151	835	94	1,080	-	1,080	1,096
Utilities and telephone	96,477	171,195	86,746	354,418	38,542	392,960	421,811
Expenses Before Depreciation	<u>5,226,619</u>	<u>3,703,378</u>	<u>2,268,023</u>	<u>11,198,040</u>	<u>1,491,382</u>	<u>12,689,422</u>	<u>12,340,557</u>
Depreciation	398,577	655,724	231,434	1,285,735	-	1,285,735	1,152,552
Total operating expenses	<u>\$ 5,625,196</u>	<u>\$ 4,359,102</u>	<u>\$ 2,499,457</u>	<u>\$ 12,483,775</u>	<u>\$ 1,491,382</u>	<u>\$ 13,975,157</u>	<u>\$ 13,493,109</u>

*See accompanying notes*

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

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**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:

Net Assets Without Donor Restriction

Net assets available for current support of the Home's activities and not subject to donor restrictions. These net assets may be used at the discretion of the Home's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

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 accommodation fees and the obligation to provide future services as discussed in notes 2I and 2J, as well as the useful lives of depreciable facilities and equipment used to calculate depreciation expense. Actual results could differ from those estimates.

C) Cash and Cash Equivalents

For financial statement purposes, the Home classifies cash accounts and highly liquid, short-term investments held outside of investment portfolios to be cash and cash equivalents. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the combined statement of financial position that sum to the total of the same such amounts shown in the combined statement of cash flows:

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 781,259	\$ 2,143,965
Donor restricted	129,528	51,693
Debt service required reserve	305,676	262,008
Held with trustee	336,999	336,699
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$ 1,553,462	\$ 2,794,365

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, 2022 and 2021, as all amounts were considered to be fully collectible.

E) Investments

Investment purchases are recorded initially at cost if purchased, or at fair value on the date of donation if donated. Thereafter, investments are reported at their fair values on the combined statement of financial position. Interest and dividend income is reported net of external and direct internal investment expenses in the statement of activities and changes in net assets.

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

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

F) 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 and changes in net assets.

G) 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.

H) Debt Issuance Costs

Debt issuance costs are amortized as a component of interest expense using the straight-line method over the term of the related financing agreement.

I) Accommodation Fees – Contract Liabilities

The Home offers two types of resident accommodation fee contracts. Under both types of contracts, accommodation fees are fully refundable if a resident terminates their contract during the first 90 days of residency.

*Traditional Contracts* - Under the traditional contract, 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, less a \$1,000 processing fee. After the first year there is no refundable portion except for in the case of the death of a resident between their first and second years of residency. In that case, their estate is entitled to a refund of 50% of the accommodation fee.

No amounts have been recorded as refundable fees for traditional contracts at December 31, 2022 and 2021 because management does not believe that a significant portion of accommodation fees will be refunded under these contracts.

*Deferred Repayment Contracts* - Under the deferred repayment contracts, residents who terminate their contract after 90 days are entitled to a 70% refund of the accommodation fee paid, less a \$1,000 processing fee. This repayment is due within fourteen days of the apartment's re-occupancy.

Refundable accommodation fees under deferred repayment contracts are recorded in the accompanying combined statement of financial position as long term liabilities.

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

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

I) Accommodation Fees – Contract Liabilities (Continued)

Accommodation fees received under traditional contracts and the nonrefundable portion of accommodation fees received under deferred repayment contracts are recorded as contract liabilities and are recognized as revenue on a straight-line basis over each individual resident's expected remaining life. Life expectancies are determined using life expectancy tables provided by the State of California Department of Social Services. Upon termination of a contract through death or withdrawal any unamortized nonrefundable deferred accommodation fees are recorded as revenue.

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%. As of December 31, 2022 and 2021 there was no accruable obligation to provide future services.

K) Revenue Recognition

On January 1, 2018, the Home adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606). Revenues that are accounted for outside the scope of ASC 606 include funds received by the Home which are voluntary and un-reciprocal contributions, as well as investment income including realized and unrealized gains and losses on investments.

In accordance with ASC 606, revenue is reported at the amount which reflects the consideration to which the Home expects to be entitled in exchange for providing services to residents, and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Home believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Performance obligations satisfied over time are related to monthly fees, entrance fees, and service income, as further described below. There are no significant performance obligations which transfer to the customer at a point in time.

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

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**K) Revenue Recognition (Continued)**

*Residential Care*

Residential care revenue at the Home's independent living and assisted living facilities consist of regular monthly charges for basic housing and support services. Fees are specified in agreements with residents and are dependent upon apartment type, level of care provided, and occupancy (single or double). Under the terms of the agreement the Home provides daily meals, weekly housekeeping, utilities, transportation, local activities, care of minor ailments, and daily observation of the residents' health and welfare. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is monthly as the services are performed.

*Skilled Nursing Facility*

The Home's skilled nursing facility provides services which include room and board, administration of medications, program activities, and in-house therapy services. The Home receives fixed daily rates from governmental and contracted third party payors and charges a predetermined fixed daily rate for private pay residents. These fixed daily rates are billed monthly in advance. If a resident does not stay for the entire month the charges are adjusted accordingly. Skilled nursing facility revenues are recorded at the amount the Home ultimately expects to receive, which is inclusive of estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is generally when services are provided over the duration of care.

Laws and regulations governing the Medicare and Medical programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and regulatory action. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and are adjusted in future periods or as final settlements are determined.

*Accommodation Fees*

Residents who enter into continuing care contracts are required to pay an accommodation fee as described in Note 2I above, the amount of which is specified in written agreements with each resident. The performance obligation for nonrefundable entrance fees (including amounts refundable on a decreasing basis for a fixed period of time, at which time the fees become nonrefundable) is that the Home is standing ready to provide a service such that the resident can continue to live in the community and access the appropriate level of care based on his or her needs. The Home has determined that these are a series of distinct services that are considered one performance obligation satisfied over time. Therefore, accommodation fees received under traditional contracts and the nonrefundable portion of accommodation fees received under deferred repayment contracts are recorded as contract liabilities and are recognized as revenue on a straight-line basis over each individual resident's expected remaining life.



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

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**K) Revenue Recognition (Continued)**

*Ancillary Services*

Ancillary services include revenues related to additional health related services such as physical therapy, occupational therapy, speech therapy, pharmacy, laboratory, x-ray, resident medical supplies, healthy support living and laundry services, and adult day care. Ancillary services also include revenues related to other non-healthcare services such as guest and employee meals, guest room rentals, beauty shop charges, resident travel, and revenues related to meal delivery as part of the Solvang Meals on Wheels program. Services eligible for Medicare reimbursement are charged at predetermined rates.

Healthy support and laundry charges are billed with monthly fees and are recognized as revenue monthly when the services are provided. Other ancillary charges are generally billed monthly in arrears and revenue is recognized as the services are performed.

*Other Income*

Other income primarily includes processing fees and fees charged to an affiliated organization for services performed. These revenues are recognized as the services are performed.

*Disaggregation of Revenue*

The Home disaggregates its revenue from contracts with customers by payor source, as management believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

The composition of revenues from contracts with customers by primary payor for the year ended December 31, 2022 is as follows:

	Skilled Nursing Facility	Residential Care	Ancillary Services	Accomm- odation Fees	Other Income	Total Revenue From Contracts with Customers
Medicare	\$ 372,947	\$ -	\$ 980,707	\$ -	\$ -	\$ 1,353,654
Medi-Cal	1,683,570	-	-	-	-	1,683,570
Managed Care HMO	46,579	-	109,190	-	-	155,769
Self-pay	3,337,995	5,845,800	522,290	880,368	307,778	10,894,231
	<u>\$ 5,441,091</u>	<u>\$ 5,845,800</u>	<u>\$ 1,612,187</u>	<u>\$ 880,368</u>	<u>\$ 307,778</u>	<u>\$ 14,087,224</u>

The composition of revenues from contracts with customers by primary payor for the year ended December 31, 2021 is as follows:

	Skilled Nursing Facility	Residential Care	Ancillary Services	Accomm- odation Fees	Other Income	Total Revenue From Contracts with Customers
Medicare	\$ 394,742	\$ -	\$ 931,354	\$ -	\$ -	\$ 1,326,096
Medi-Cal	1,409,509	-	-	-	-	1,409,509
Managed Care HMO	18,915	-	50,543	-	-	69,458
Self-pay	3,344,107	5,516,574	461,204	888,277	312,836	10,522,998
	<u>\$ 5,167,273</u>	<u>\$ 5,516,574</u>	<u>\$ 1,443,101</u>	<u>\$ 888,277</u>	<u>\$ 312,836</u>	<u>\$ 13,328,061</u>

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

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

L) Income Taxes

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

M) Income from Operations

The statement of activities and changes in net assets includes income from operations. Changes in net assets without donor restrictions which are excluded from income from operations, consistent with industry practice, include gains and losses on investments and sale of equipment, gain on debt forgiveness, and satisfactions of restrictions on contributions used for the purchase of facilities and equipment.

N) Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include depreciation and amortization which are allocated based on the nature of use of the underlying asset, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other which are allocated on the basis of estimates of time, effort and coverage.

O) 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.

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

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**Note 3 – Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 781,259	\$ 2,143,965
Accounts receivable	519,103	700,933
Investments, undesignated	<u>1,285,564</u>	<u>341,978</u>
	<u>\$ 2,585,926</u>	<u>\$ 3,186,876</u>

As part of the Home's liquidity management procedures, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the home invests cash in excess of daily requirements in short term investments and money market funds.

The Home has certain board-designated assets which are designated for future capital expenditures and operating reserves. These assets are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

**Note 4 – Assets Whose Use is Limited**

All limited use assets were held in cash and cash equivalents at December 31, 2022 and 2021, for the following purposes:

- Donor restricted assets are comprised of contributions which have been restricted by the donor for specified purposes (see Note 11).
- The Home's USDA loan (see Note 9) requires that the Home set aside funds as a debt reserve account.
- As a requirement of the 2014 Certificates of Participation (see Note 9), certain funds are controlled by the trustee. These funds consist of a purchase payment fund, certificate reserve fund, and project account.

**Note 5 – 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**

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**Note 5 – 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, 2022 and 2021, 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:

*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 5 – 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, 2022.

	<b>December 31, 2022</b>			
	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Money market funds	\$ 12,908	\$ 12,908	\$ -	\$ -
Fixed income:				
Corporate bonds	38,266	-	38,266	-
Government and agency securities	1,037,918	-	1,037,918	-
Asset and mortgage backed securities	9,293	-	9,293	-
Total fixed income securities	<u>1,085,477</u>	<u>-</u>	<u>1,085,477</u>	<u>-</u>
Common stocks	<u>87,000</u>	<u>87,000</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Immediate term bond	1,440,578	1,440,578	-	-
Small blend	161,109	161,109	-	-
Total US investment-grade bond	30,746	30,746	-	-
Mid-cap blend	968	968	-	-
Diversified emerging markets	167,458	167,458	-	-
Foreign small/mid blend	84,607	84,607	-	-
Large blend	506,373	506,373	-	-
Large growth	392,549	392,549	-	-
Large value	496,772	496,772	-	-
Total exchange traded funds	<u>3,281,160</u>	<u>3,281,160</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Immediate term bonds	10,690	10,690	-	-
World bonds	624	624	-	-
High yield bonds	419,068	419,068	-	-
Corporate bonds	5,092	5,092	-	-
Large blend	836,024	836,024	-	-
Large growth	400,901	400,901	-	-
Large value	332,176	332,176	-	-
Mid-cap blend	163,647	163,647	-	-
Diversified emerging markets	168,420	168,420	-	-
Foreign small/mid blend	85,367	85,367	-	-
Small growth	321,884	321,884	-	-
Intermediate core-plus bond	1,893,261	1,893,261	-	-
Emerging markets bond	338,651	338,651	-	-
Money market mutual funds	164,317	164,317	-	-
Total mutual funds	<u>5,140,122</u>	<u>5,140,122</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 9,606,667</u>	<u>\$ 8,521,190</u>	<u>\$ 1,085,477</u>	<u>\$ -</u>

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

**Note 5 – 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, 2021.

	<b>December 31, 2021</b>			
	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Money market funds	\$ 10,567	\$ 10,567	\$ -	\$ -
Fixed income:				
Corporate bonds	53,720	-	53,720	-
Government and agency securities	23,694	-	23,694	-
Asset and mortgage backed securities	8,329	-	8,329	-
Total fixed income securities	<u>85,743</u>	<u>-</u>	<u>85,743</u>	<u>-</u>
Common stocks	<u>114,124</u>	<u>114,124</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Immediate term bond	1,725,459	1,725,459	-	-
Small blend	196,201	196,201	-	-
Small value	218,593	218,593	-	-
Mid-cap blend	50,119	50,119	-	-
Diversified emerging markets	259,269	259,269	-	-
Foreign small/mid blend	191,684	191,684	-	-
REIT	128,353	128,353	-	-
Large blend	388,874	388,874	-	-
Large growth	479,746	479,746	-	-
Large value	751,879	751,879	-	-
Total exchange traded funds	<u>4,390,177</u>	<u>4,390,177</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Immediate term bonds	8,507	8,507	-	-
World bonds	3,990	3,990	-	-
High yield bonds	496,714	496,714	-	-
Corporate bonds	10,691	10,691	-	-
Large blend	735,169	735,169	-	-
Large growth	342,994	342,994	-	-
Large value	648,103	648,103	-	-
Mid-cap blend	228,189	228,189	-	-
Diversified emerging markets	166,726	166,726	-	-
Foreign small/mid blend	98,548	98,548	-	-
Small growth	420,286	420,286	-	-
Intermediate core-plus bond	2,188,861	2,188,861	-	-
Emerging markets bond	181,179	181,179	-	-
Money market mutual funds	126,703	126,703	-	-
Total mutual funds	<u>5,656,660</u>	<u>5,656,660</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 10,257,271</u>	<u>\$ 10,171,528</u>	<u>\$ 85,743</u>	<u>\$ -</u>

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

**Note 6 – Facilities and Equipment**

Facilities and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Facilities and equipment:		
Land	\$ 873,290	\$ 873,290
Buildings and improvements	44,003,596	43,847,749
Furnishings and equipment	5,122,006	4,914,989
Vehicles	471,414	471,414
Construction in progress	69,279	39,865
Total facilities and equipment	<u>50,539,585</u>	<u>50,147,307</u>
Less accumulated depreciation	<u>19,953,974</u>	<u>18,665,373</u>
Total facilities and equipment, net	<u>\$ 30,585,611</u>	<u>\$ 31,481,934</u>

**Note 7 – Debt Issuance Costs**

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

	<u>2022</u>	<u>2021</u>
Debt issuance costs	\$ 389,933	\$ 389,933
Less accumulated amortization	<u>(127,219)</u>	<u>(112,104)</u>
Total net debt issuance costs	<u>\$ 262,714</u>	<u>\$ 277,829</u>

Amortization of debt issuance costs was \$15,115 and \$15,115 for the years ended December 31, 2022 and 2021, respectively, and is included as a component of interest expense. Estimated future amortization is as follows for the years ended December 31:

2023	\$ 15,115
2024	15,115
2025	15,115
2026	15,115
2027	15,115
Thereafter	<u>187,139</u>
	<u>\$ 262,714</u>

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

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**Note 8 – Contract Liabilities**

Contract liabilities are related to accommodation fees received in advance from residents which are recognized as revenue over the residents' estimated life expectancy. Significant changes in the contract liabilities balances during the years ended December 31, 2022 and 2021 are as follows:

Balance, December 31, 2020	\$	2,632,333
Accommodation fees received (additions to contract liability)		1,209,250
Accommodation fees refunded (reductions in contract liability)		(58,160)
Amortization revenue recognized which was included in the contract liability balance at the beginning of the year		(736,170)
Amortization revenue recognized on accommodation fees which were received during 2021		(152,107)
Balance, December 31, 2021	\$	2,895,146
Accommodation fees received (additions to contract liability)		798,000
Accommodation fees refunded (reductions in contract liability)		(174,750)
Amortization revenue recognized which was included in the contract liability balance at the beginning of the year		(814,419)
Amortization revenue recognized on accommodation fees which were received during 2022		(65,949)
Balance, December 31, 2022	\$	<u>2,638,028</u>

**Note 9 – Long Term Debt**

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

	<u>2022</u>	<u>2021</u>
Certificates of participation (COPs)	\$ 2,830,000	\$ 2,940,000
Original issuance premium on COPs	3,659	4,222
USDA loan	6,292,731	6,475,345
Total long term debt	<u>9,126,390</u>	<u>9,419,567</u>
Less current portion	<u>(303,373)</u>	<u>(290,999)</u>
Total long term debt, net of current portion	<u>\$ 8,823,017</u>	<u>\$ 9,128,568</u>



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

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**Note 9 – Long Term Debt (Continued)**

Certificates of Participation

In July of 2014, the Home issued Certificates of Participation (COPs) in the amount of \$3,470,000 to (i) 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 1<sup>st</sup> and July 1<sup>st</sup> of each year commencing January 1, 2015, with interest rates ranging from 2.0% to 4.0%. Principal payments commenced 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.

The regulatory agreement to the COPs requires 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 required 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 160 days cash on hand at December 31, 2015. The days cash on hand requirement increased to 200 days at December 31, 2016 and thereafter. The Home was in compliance with these requirements as of December 31, 2022.

Scheduled principal payments required for the next five years and thereafter are as follows:

2023	\$	115,000
2024		115,000
2025		120,000
2026		125,000
2027		130,000
Thereafter		2,225,000
		<u>\$ 2,830,000</u>

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

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**Note 9 – 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 received funding from the loan on a reimbursement basis and the full \$7,335,000 was borrowed. The interest rate is fixed at 4.0% and the loan is payable over a 30 year term. Monthly principal and interest payments of \$36,382 commenced on August 17, 2016. The loan is secured by the assisted living facility, and a shared interest in the related land.

Effective in January 2016, the Home is required to set aside \$3,639 per month as a debt reserve account, until a total of \$436,584 is accumulated. The total required reserve balance at December 31, 2022 is \$305,676 which the Home maintains in its cash accounts.

Scheduled principal payments required for the next five years and thereafter are as follows:

2023	\$	188,373
2024		195,362
2025		204,007
2026		212,319
2027		220,969
Thereafter		5,271,701
	\$	<u>6,292,731</u>

Paycheck Protection Program Loan

In May 2020, the Home received loan proceeds in the amount of \$249,540 under the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan had an interest rate of 1.00% and maturity date of May 22, 2022. The loan and accrued interest were forgivable as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained its payroll levels. In May 2021 the loan was 100% forgiven by the Small Business Administration. As a result, the Home recorded a gain on the forgiveness of the loan in the amount of \$249,540.

Interest Capitalized

Total interest expense incurred by the Home was \$384,522 and \$394,512 of which \$1,840 and \$64,195 was capitalized to construction in progress during the years ended December 31, 2022 and 2021, respectively.

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

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**Note 10 – Board Designated Net Assets**

At December 31, 2022 and 2021, the Board of Directors had designated a portion of the net assets without donor restrictions for the following purposes:

	<b>2022</b>	<b>2021</b>
Endowment Fund of the Solvang Lutheran Home, Inc.	\$ 8,623,445	\$ 10,233,226
USDA debt reserve	432,351	432,351
Total designated net assets	<b>\$ 9,055,796</b>	<b>\$ 10,665,577</b>

**Note 11 – Net Assets With Donor Restrictions**

Net assets with donor restrictions at December 31, 2022 were \$129,528, of which \$43,554 was restricted for the purchase of specified facilities and equipment, and \$85,974 was restricted for housing assistance for low income seniors. Net assets with donor restrictions at December 31, 2021 were \$51,693, which were all restricted for the purchase of specified facilities and equipment.

Net assets in the amount of \$48,921 in 2022 were released by purchase of specified facilities and equipment for \$45,000 and grants to low income seniors for housing assistance for \$3,921. Net assets in the amount of \$796,938 in 2021 were released by purchase of specified facilities and equipment.

**Note 12 – 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, 2022 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 2019 for federal purposes and for years prior to 2018 for California purposes.

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

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**Note 13 – 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:

	<b>2022</b>	<b>2021</b>
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,461,175)	\$ 1,279,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,288,601	1,285,735
Proceeds from nonrefundable accommodation fees	798,000	1,209,250
Amortization of unearned entrance fees	(880,368)	(888,277)
Amortization of bond premium and issuance costs	14,552	14,552
Gain on disposal of assets	-	(10,500)
Gain on forgiveness of PPP loan	-	(249,540)
Realized and unrealized (gain) loss on investments	1,805,990	(523,442)
Contributions and interest restricted for long-term assets	(35,861)	(93,476)
(Increase) decrease in:		
Accounts receivable	181,830	(233,564)
Other assets	(18,100)	15,225
Increase (decrease) in:		
Accounts payable and accrued expenses	47,318	1,486
Deferred revenue	-	(409,688)
Net cash provided by operating activities	\$ 740,787	\$ 1,397,585

**Note 14 – Malpractice Insurance**

The Home maintains professional liability insurance on an occurrence basis. There were no claims outstanding at December 31, 2022.

**Note 15 – Employee Benefit Plans**

457 Plan

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 2022 and 2021, one employee participated in this plan. The Home did not make contributions to the plan in 2022 or 2021.

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

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**Note 15 – Employee Benefit Plans (Continued)**

403(b) Plan

Effective January 1, 2009, the Home adopted a non-ERISA tax-deferred annuity plan qualified under IRC Section 403(b) covering substantially all employees. The Plan did not allow for employer contributions.

In June 2018, the Home amended and fully restated the Plan. The restated Plan allows for employee pre-tax and Roth elective deferrals up to the maximum allowed by the IRS. The Plan also allows matching employer contributions effective January 1, 2018, which are discretionary and are determined and authorized by the Board of Directors each plan year. Matching contributions in the amount of \$70,096 and \$62,267 were made in 2022 and 2021, respectively.

**Note 16 – COVID-19 Business Risk and Provider Relief Funds**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Home operates.

The Home received \$511,606 in Provider Relief Funds during 2020 from the Department of Health and Human Services to help with COVID-19 related costs, of which \$101,918 was recognized in 2020. The remaining \$409,688 was included in deferred revenue on the Home's combined statement of financial position at December 31, 2020, and was recognized in 2021. An additional \$260,676 in Provider Relief Funds were received and fully recognized during the year ended December 31, 2021.

**Note 17 – Subsequent Events**

Subsequent events have been evaluated through May 22, 2023, the date that the financial statements were available to be issued.

## **Supplemental Schedules**

**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2022**

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
<b><u>ASSETS</u></b>					
Current Assets:					
Cash and cash equivalents	\$ 779,029	\$ 2,230	\$ 781,259	\$ -	\$ 781,259
Accounts receivable	519,103	-	519,103	-	519,103
Other assets	219,985	4,112	224,097	-	224,097
Investments	1,285,564	-	1,285,564	-	1,285,564
Total current assets	<u>2,803,681</u>	<u>6,342</u>	<u>2,810,023</u>	<u>-</u>	<u>2,810,023</u>
Assets Whose Use is Limited:					
Donor restricted	129,528	-	129,528	-	129,528
Debt service required reserve	305,676	-	305,676	-	305,676
Held with trustee for debt service	336,999	-	336,999	-	336,999
Total limited use assets	<u>772,203</u>	<u>-</u>	<u>772,203</u>	<u>-</u>	<u>772,203</u>
Facilities and equipment, net	<u>30,585,611</u>	<u>-</u>	<u>30,585,611</u>	<u>-</u>	<u>30,585,611</u>
Other Assets:					
Investments	-	8,321,103	8,321,103	-	8,321,103
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>-</u>	<u>8,617,103</u>	<u>8,617,103</u>	<u>-</u>	<u>8,617,103</u>
Total assets	<u>\$ 34,161,495</u>	<u>\$ 8,623,445</u>	<u>\$ 42,784,940</u>	<u>\$ -</u>	<u>\$ 42,784,940</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,197,353	\$ -	\$ 1,197,353	\$ -	\$ 1,197,353
Interest payable	77,918	-	77,918	-	77,918
Current portion of long term debt	303,373	-	303,373	-	303,373
Total current liabilities	<u>1,578,644</u>	<u>-</u>	<u>1,578,644</u>	<u>-</u>	<u>1,578,644</u>
Long Term Liabilities:					
Unamortized accommodation fees-contract liabilities	2,638,028	-	2,638,028	-	2,638,028
Contingent refundable accommodation fee liability	2,519,000	-	2,519,000	-	2,519,000
Long term debt, net of current portion	8,823,017	-	8,823,017	-	8,823,017
Debt issuance costs, net	(262,714)	-	(262,714)	-	(262,714)
Total long term liabilities	<u>13,717,331</u>	<u>-</u>	<u>13,717,331</u>	<u>-</u>	<u>13,717,331</u>
Total liabilities	<u>15,295,975</u>	<u>-</u>	<u>15,295,975</u>	<u>-</u>	<u>15,295,975</u>
Net Assets:					
Without donor restrictions:					
Board designated	432,351	8,623,445	9,055,796	-	9,055,796
Undesignated	18,303,641	-	18,303,641	-	18,303,641
Total without donor restrictions	<u>18,735,992</u>	<u>8,623,445</u>	<u>27,359,437</u>	<u>-</u>	<u>27,359,437</u>
With donor restrictions	<u>129,528</u>	<u>-</u>	<u>129,528</u>	<u>-</u>	<u>129,528</u>
Total net assets	<u>18,865,520</u>	<u>8,623,445</u>	<u>27,488,965</u>	<u>-</u>	<u>27,488,965</u>
Total liabilities and net assets	<u>\$ 34,161,495</u>	<u>\$ 8,623,445</u>	<u>\$ 42,784,940</u>	<u>\$ -</u>	<u>\$ 42,784,940</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, 2022**

	<b>Solvang Lutheran Home, Inc.</b>	<b>Endowment Fund - SLH, Inc.</b>	<b>Total</b>	<b>Eliminations</b>	<b>Combined Total</b>
<b>Changes in Net Assets Without Donor Restrictions:</b>					
<b>Operating Revenues:</b>					
Skilled nursing facility	\$ 5,441,091	\$ -	\$ 5,441,091	\$ -	\$ 5,441,091
Residential care facility	5,845,800	-	5,845,800	-	5,845,800
Ancillary services	1,612,187	-	1,612,187	-	1,612,187
Accommodation fee amortization	880,368	-	880,368	-	880,368
Other income	256,293	51,485	307,778	-	307,778
Investment income	4,095	242,492	246,587	-	246,587
Contributions and grants	15,814	3,841	19,655	-	19,655
Resident assistance and grants from Endowment Fund	103,000	-	103,000	(103,000)	-
Net assets released from restrictions for operations	3,921	-	3,921	-	3,921
Total operating revenues	<u>14,162,569</u>	<u>297,818</u>	<u>14,460,387</u>	<u>(103,000)</u>	<u>14,357,387</u>
<b>Operating Expenses:</b>					
Health services	5,413,513	-	5,413,513	-	5,413,513
Dietary services	3,107,147	-	3,107,147	-	3,107,147
Housekeeping and laundry	858,248	-	858,248	-	858,248
Social services and activities	717,926	-	717,926	-	717,926
Transportation	132,662	-	132,662	-	132,662
Administration	1,693,799	57,918	1,751,717	-	1,751,717
Plant operations and utilities	1,316,899	-	1,316,899	-	1,316,899
Interest expense	382,682	-	382,682	-	382,682
Depreciation	1,288,601	-	1,288,601	-	1,288,601
Insurance and taxes	166,012	-	166,012	-	166,012
Resident assistance and grants from Endowment Fund	-	103,000	103,000	(103,000)	-
Total operating expenses	<u>15,077,489</u>	<u>160,918</u>	<u>15,238,407</u>	<u>(103,000)</u>	<u>15,135,407</u>
Income (loss) from operations	(914,920)	136,900	(778,020)	-	(778,020)
<b>Non-operating revenues and other gains:</b>					
Net loss on investments	(59,309)	(1,746,681)	(1,805,990)	-	(1,805,990)
Net assets released from restrictions for facilities and equipment	45,000	-	45,000	-	45,000
Decrease in net assets without donor restrictions	(929,229)	(1,609,781)	(2,539,010)	-	(2,539,010)
Net assets without donor restrictions, beginning of year	19,665,221	10,233,226	29,898,447	-	29,898,447
Net assets without donor restrictions, end of year	<u>18,735,992</u>	<u>8,623,445</u>	<u>27,359,437</u>	<u>-</u>	<u>27,359,437</u>
<b>Changes in Net Assets With Donor Restrictions:</b>					
Contributions and grants	126,395	-	126,395	-	126,395
Investment income	361	-	361	-	361
Net assets released from restrictions for facilities and equipment	(48,921)	-	(48,921)	-	(48,921)
Increase in net assets with donor restrictions	77,835	-	77,835	-	77,835
Net assets with donor restrictions, beginning of year	51,693	-	51,693	-	51,693
Net assets with donor restrictions, end of year	<u>129,528</u>	<u>-</u>	<u>129,528</u>	<u>-</u>	<u>129,528</u>
Total net assets, end of year	<u>\$ 18,865,520</u>	<u>\$ 8,623,445</u>	<u>\$ 27,488,965</u>	<u>\$ -</u>	<u>\$ 27,488,965</u>

*See accompanying notes*



**SOLVANG LUTHERAN HOME, INC. AND AFFILIATE**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2021**

	<b>Solvang Lutheran Home, Inc.</b>	<b>Endowment Fund - SLH, Inc.</b>	<b>Total</b>	<b>Eliminations</b>	<b>Combined Total</b>
<b><u>ASSETS</u></b>					
Current Assets:					
Cash and cash equivalents	\$ 2,125,186	\$ 18,779	\$ 2,143,965	\$ -	\$ 2,143,965
Accounts receivable	700,933	-	700,933	-	700,933
Other assets	202,843	3,154	205,997	-	205,997
Investments	341,978	-	341,978	-	341,978
Total current assets	<u>3,370,940</u>	<u>21,933</u>	<u>3,392,873</u>	<u>-</u>	<u>3,392,873</u>
Assets Whose Use is Limited:					
Donor restricted	51,693	-	51,693	-	51,693
Debt service required reserve	262,008	-	262,008	-	262,008
Held with trustee for debt service	336,699	-	336,699	-	336,699
Total limited use assets	<u>650,400</u>	<u>-</u>	<u>650,400</u>	<u>-</u>	<u>650,400</u>
Facilities and equipment, net	<u>31,481,934</u>	<u>-</u>	<u>31,481,934</u>	<u>-</u>	<u>31,481,934</u>
Other Assets:					
Investments	-	9,915,293	9,915,293	-	9,915,293
Income producing real estate	-	296,000	296,000	-	296,000
Total other assets	<u>-</u>	<u>10,211,293</u>	<u>10,211,293</u>	<u>-</u>	<u>10,211,293</u>
Total assets	<u>\$ 35,503,274</u>	<u>\$ 10,233,226</u>	<u>\$ 45,736,500</u>	<u>\$ -</u>	<u>\$ 45,736,500</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 1,154,821	\$ -	\$ 1,154,821	\$ -	\$ 1,154,821
Interest payable	75,655	-	75,655	-	75,655
Current portion of long term debt	290,999	-	290,999	-	290,999
Total current liabilities	<u>1,521,475</u>	<u>-</u>	<u>1,521,475</u>	<u>-</u>	<u>1,521,475</u>
Long Term Liabilities:					
Unamortized accommodation fees-contract liabilities	2,895,146	-	2,895,146	-	2,895,146
Contingent refundable accommodation fee liability	2,519,000	-	2,519,000	-	2,519,000
Long term debt, net of current portion	9,128,568	-	9,128,568	-	9,128,568
Debt issuance costs, net	(277,829)	-	(277,829)	-	(277,829)
Total long term liabilities	<u>14,264,885</u>	<u>-</u>	<u>14,264,885</u>	<u>-</u>	<u>14,264,885</u>
Total liabilities	<u>15,786,360</u>	<u>-</u>	<u>15,786,360</u>	<u>-</u>	<u>15,786,360</u>
Net Assets:					
Without donor restrictions:					
Board designated	432,351	10,233,226	10,665,577	-	10,665,577
Undesignated	19,232,870	-	19,232,870	-	19,232,870
Total without donor restrictions	<u>19,665,221</u>	<u>10,233,226</u>	<u>29,898,447</u>	<u>-</u>	<u>29,898,447</u>
With donor restrictions	<u>51,693</u>	<u>-</u>	<u>51,693</u>	<u>-</u>	<u>51,693</u>
Total net assets	<u>19,716,914</u>	<u>10,233,226</u>	<u>29,950,140</u>	<u>-</u>	<u>29,950,140</u>
Total liabilities and net assets	<u>\$ 35,503,274</u>	<u>\$ 10,233,226</u>	<u>\$ 45,736,500</u>	<u>\$ -</u>	<u>\$ 45,736,500</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, 2021**

	<u>Solvang Lutheran Home, Inc.</u>	<u>Endowment Fund - SLH, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
Changes in Net Assets Without Donor Restrictions:					
Operating Revenues:					
Skilled nursing facility	\$ 5,167,273	\$ -	\$ 5,167,273	\$ -	\$ 5,167,273
Residential care facility	5,516,574	-	5,516,574	-	5,516,574
Ancillary services	1,443,101	-	1,443,101	-	1,443,101
Accommodation fee amortization	888,277	-	888,277	-	888,277
Other income	276,836	36,000	312,836	-	312,836
Investment Income	8,668	299,464	308,132	-	308,132
Contributions and grants	792,583	1,747	794,330	-	794,330
Resident assistance and grants from Endowment Fund	30,000	-	30,000	(30,000)	-
Total operating revenues	<u>14,123,312</u>	<u>337,211</u>	<u>14,460,523</u>	<u>(30,000)</u>	<u>14,430,523</u>
Operating Expenses:					
Health services	4,855,231	-	4,855,231	-	4,855,231
Dietary services	2,822,022	-	2,822,022	-	2,822,022
Housekeeping and laundry	775,099	-	775,099	-	775,099
Social services and activities	758,196	-	758,196	-	758,196
Transportation	125,430	-	125,430	-	125,430
Administration	1,580,356	72,397	1,652,753	-	1,652,753
Plant operations and utilities	1,243,931	-	1,243,931	-	1,243,931
Interest expense	330,317	-	330,317	-	330,317
Depreciation	1,285,735	-	1,285,735	-	1,285,735
Insurance and taxes	126,443	-	126,443	-	126,443
Resident assistance and grants from Endowment Fund	-	30,000	30,000	(30,000)	-
Total operating expenses	<u>13,902,760</u>	<u>102,397</u>	<u>14,005,157</u>	<u>(30,000)</u>	<u>13,975,157</u>
Income from operations	220,552	234,814	455,366	-	455,366
Non-operating revenues and other gains:					
Net gain on investments	26,188	497,254	523,442	-	523,442
Gain on disposal of assets	10,500	-	10,500	-	10,500
Gain from legal settlement	249,540	-	249,540	-	249,540
Net assets released from restrictions	796,938	-	796,938	-	796,938
Increase in net assets without donor restrictions	<u>1,303,718</u>	<u>732,068</u>	<u>2,035,786</u>	<u>-</u>	<u>2,035,786</u>
Net assets without donor restrictions, beginning of year	<u>18,361,503</u>	<u>9,501,158</u>	<u>27,862,661</u>	<u>-</u>	<u>27,862,661</u>
Net assets without donor restrictions, end of year	<u>19,665,221</u>	<u>10,233,226</u>	<u>29,898,447</u>	<u>-</u>	<u>29,898,447</u>
Changes in Net Assets With Donor Restrictions:					
Contributions and grants	40,500	-	40,500	-	40,500
Interest income	476	-	476	-	476
Net assets released from restrictions for facilities and equipment	(796,938)	-	(796,938)	-	(796,938)
Decrease in net assets with donor restrictions	<u>(755,962)</u>	<u>-</u>	<u>(755,962)</u>	<u>-</u>	<u>(755,962)</u>
Net assets with donor restrictions, beginning of year	<u>807,655</u>	<u>-</u>	<u>807,655</u>	<u>-</u>	<u>807,655</u>
Net assets with donor restrictions, end of year	<u>51,693</u>	<u>-</u>	<u>51,693</u>	<u>-</u>	<u>51,693</u>
Total net assets, end of year	<u>\$ 19,716,914</u>	<u>\$ 10,233,226</u>	<u>\$ 29,950,140</u>	<u>\$ -</u>	<u>\$ 29,950,140</u>

See accompanying notes