MANAGEMENT CONSULTANT REPORT

October 5, 2012

1501 Greer Lane ▪ Signal Mountain, TN 37377
423.517.0567 ▪ 423.517.0568 Fax
www.consulting-cds.com

Continuum Development Services

Senior Living Health Care Consultants
1501 Greer Lane, Signal Mountain, TN 37377 • 423.517.0567 • FAX 23.517.0568
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Mr. Roger Paulsberg
President/CEO
Lutheran Life Communities
3150 Salt Creek Lane
Arlington Heights, IL 60005

Dear Mr. Paulsberg:

Continuum Development Services, Inc. (CDS) is pleased to present its management consultant report for the fiscal year ended June 30, 2012 for Pleasant View Luther Home (PVLH), a Lutheran Life Community (LLC) organization.

The management consultant report includes recommendations for improving financial and operating performance to comply with bond covenants. The recommendations result from the CDS site visit, analysis of materials gathered during the review process and discussions with management. CDS did not independently verify materials provided by management. Therefore, CDS does not express an opinion regarding the accuracy or completeness of these documents. Furthermore, CDS does not have a responsibility to update the report based on events or information that may become available after report date.

CDS does not guarantee that the recommendations presented in this report will result in the improvements stated herein, since circumstances not foreseen could change the outcome of the recommendations. In addition, CDS cannot guarantee that management will implement any or all of the recommendations presented in the report or the timeframe of implementation.

We appreciate the opportunity to work with Pleasant View and Lutheran Life Communities.

Sincerely,

Daniel H. Gray
President

INTRODUCTION

Pleasant View Luther Home (PVLH), which began operations in 1937, provides independent living, assisted living, skilled nursing care and rehabilitation services on 17 acres in Ottawa, Illinois. Lutheran Life Communities (LLC) is the parent organization of PVLH; however, PVLH is the sole member of the Obligated Group that is the focus of this report.

Management provided CDS with capacity and occupancy data for the fiscal year ended June 30, 2012 (FY2012); July 1, 2012 – August 31, 2012 (2moFY13); and the fiscal year ending June 30, 2013 (FY2013); as summarized in Table CD-1.

TABLE CD-1

Community Configuration

		Average Occupied Units		
Location	Capacity Units/Beds	FY2012 Actual	2 mo FY13 Actual	FY2013 Budget
Independent Living	34	32	28	33
Hearthstone Assisted Living	24	23	23	23
Health Care Center	90	83	79	88
TOTAL	**148**	**138**	**130**	**144**
PERCENT		**93.2%**	**87.8%**	**97.3%**

PURPOSE OF ENGAGEMENT

CDS was engaged to issue a management consultant report as required by section 431 (b) of the Master Trust Indenture (MTI).

The CDS scope of work included the following:

- Provide recommendations for staffing, cost containment, and revenue enhancement to improve profitability of the Obligated Group and create an overall corrective action plan;
- Project funds needed to achieve Historical Debt Service Coverage Ratio of 1.20:1;
- Develop a revised fill-up schedule and plan for payment of Series 2010 Bonds;
- Provide written report with detailed analysis and recommendations; and
- Discuss results with management, board, and Master Trustee.

CDS conducted a site visit at PVLH from September 4-6, 2012.

BOND COVENANT ANALYSIS

PVLH Bonds were issued by the Upper Illinois River Valley Development Authority in September, 2010 with a total original issue amount of $16,695,000.

According to management, PVLH complied with Rate, Liquidity, and Occupancy Covenants as of June 30, 2012. However, withdrawals from the Liquidity Support Fund (LSF) during FY2012 required PVLH to engage a consultant. CDS was retained to provide the required management consultant report.

In May 2012, PVLH transferred $100,000 from the LSF to the interest fund to pay debt service, due to continuing delays in reimbursement from the State of Illinois for public aid residents. In June 2012, LLC deposited $250,000 into the LSF. The balance of the LSF was $659,000 as of June 30, 2012, exceeding the amount required by the Master Trustee. As of June 30, 2012, PVLH had approximately $800,000 in unrestricted cash and investments.

Table BC-1 shows the rate covenant calculations for Historical Debt Service Coverage (DSC) as provided by management. For the fiscal year ended June 30, 2012, net income available for debt service generated a DSC of 1.29. The projected DSC is 1.31 for the fiscal year ending June 30, 2013, based on the assumptions in the PVLH operating budget.

TABLE BC-1

	(in Thousands)	
	Actual FY2012	**Projected FY2013**
DEBT SERVICE COVERAGE RATIO		
Income Available for Debt Service:		
Change in Unrestricted Net Assets (Deficit)	$ (1,017)	$ (308)
Deduct:		
Entrance Fee Amortization	$ (146)	$ (69)
Add:		
Depreciation & Amortization	$ 790	$ 928
Interest Expense	1,006	1,297
Proceeds from New Entrance Fees, Net	142	-
Income Available for Debt Service	$ 775	$ 1,848
Debt Service Requirement	$ 601	$ 1,409
Debt Service Coverage Ratio	**1.29**	**1.31**

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SUMMARY OF RESULTS

Management expects that PVLH will achieve a Historical Debt Service Coverage Ratio in excess of 1.20:1 for the fiscal year ending June 30, 2013. Management anticipates that bond payments will occur as planned. The new assisted living units filled by June 2011, six months ahead of the feasibility study schedule. Therefore, an overall corrective action plan, recommendations regarding additional sources of funds, and a revised fill-up schedule are not applicable to the current situation at PVLH.

CDS reviewed operations at PVLH to identify opportunities to improve profitability. Table R-1 shows a snapshot of the CDS benchmarks compared to current performance at PVLH for several key operating metrics. PVLH is operating at best practice productivity levels in most areas and has implemented flexible staffing practices to manage labor hours in all departments based on daily census. CDS offers the following suggestions to optimize financial performance:

1. Continue to achieve or exceed budgeted Medicare revenue
   - Average Medicare census for the first two months of FY2013 is on track with budget; target to increase by 15% by marketing private rooms, customer service, and quality of care
   - Target to exceed budgeted average RUG rates by 8% under new therapy contract that provides increased management and therapist staffing
   - Identify and assess appropriate residents to received Medicare Part B services, utilizing additional therapy capacity. Target average caseload to be 20% of long-term residents in skilled nursing
2. Review dining services staffing budget
   - IL/AL dining program is relatively small so difficult to achieve target productivity; consider no increase in dining services staffing when AL expansion occurs
3. Address accounts receivable issues
   - Accounts receivable increased to 49 days at June 30, 2012; although 43% of AR relates to Illinois Public Aid accounts, review collection periods and target to reduce number of days outstanding from other payor sources
4. Focus on improvements to NOM
   - Maximize additional net operating revenue from planned assisted living expansion
   - Enhance memory support programming with differentiation by level of services
   - Consider increasing daily rates for private rooms with private showers
   - Evaluate ability to charge private room differential for IPA residents

PVLH is a lean organization and the FY2013 budget reflects an overall reduction in staffing from FY2012. If revenue goals are met, PVLH will achieve a 17% NOM, which will place it in the top 25th percentile in the CARF-CCAC database.

TABLE R-1

Benchmark Comparison

METRIC	CDS Target	PVLH
HOURS OF CARE PER RESIDENT DAY		
Nursing Care		
Licensed Hours	0.8 to 1.0	**1.0**
Productive Hours	3.3 to 3.8	**3.1**
All Hours	3.8 to 4.3	**3.8**
FINANCE		
Net Operating Margin	10%+	**5%**
Days in Accounts Receivable	25	**49**
DINING SERVICES		
Meals per Labor Hour	3.7	**3.4**
FACILITIES		
Square Feet Maintained Per FTE	50,000	**49,300**
Grounds Costs Per Acre	$3,000 to $5,000	**$3,450**
Square Feet Cleaned Per FTE	14,100	**14,000**
Laundry Pounds per FTE	50	**50**

Red = unfavorable to benchmark
Blue = favorable to benchmark
Black = equivalent to benchmark

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