

APPENDIX E

2007 PRO FORMA INCOME STATEMENT

EXPLANATION OF 2007 PRO-FORMA RESULTS

As the results of 2006 made it clear that VLH has financially turned the corner, the year of 2007 will continue to solidify the organization's operational success and further establish the financial foundation for economically sustainable growth and protection of our residents' investment in Brandon Oaks.

VLH will continue to build on its twin success stories (Medicare Re-hab Services and the Village Homes Development). For example, a new enlarged and enhanced therapy area in the Nursing and Re-Hab Center opened in March, 2006 that has attracted more Medicare therapy patients.

In May, 2007 residents will begin to move into a new wing of 24 Luxury Entry Fee Independent Living Apartments. Additionally, in September 2006 the groundbreaking was held for a new wing of 40 Assisted Living Apartments that will open in early 2008..

For fiscal year 2007, the Obligated Group projects cash operating revenue of \$11,910,243. This amount excludes \$915,376 of non-cash earned entry fees as well as \$215,000 of cash investment income and contributions.

Cash net operating revenue is projected to be \$1,066,761 excluding investment income and contributions

Based on turn-over and re-occupancy of 18 entry fee residences (excluding entry fees on 24 new residences opening in May, 2007), net entry fees of \$1,620,685 are projected. When combined with net operating revenue and investment income/donations, the Obligated Group projects debt service coverage of 1.52 x in 2007.

2007 also marks the fifth year of Virginia Lutheran Home's decision to take the very conservative accounting position of not amortizing the refundable portion of 50% and 90% refundable entry fees into income. This decision reflects a continuing financial focus on cash generation and a strong emphasis on solid debt service coverage.

As with all Pro-Forma projections, year-end results may vary as unforeseen changes occur in the economy and the operating environment. Therefore, no assurance is stated that the attached Pro-Forma results will be achieved.

CONFIDENTIAL
2007 PROPOSED BUDGET WITH NEW WING
VIRGINIA LUTHERAN HOMES, INC.

	New IDL Wing Brandon Oaks	Current Brandon Oaks (VLH-Corporate)	Support Services (VLH-Corporate)	Obligated Group
<u>OPERATING ACTIVITIES</u>				
Service Revenue				
Independent Living	\$ 436,734	\$ 5,550,948	\$ -	\$ 5,987,682
Assisted Living (net of contractual allowances)		777,100	-	777,100
Nursing & Rehabilitation Center (net of contractual allowances)		3,602,552	-	3,602,552
Management Fees		-	901,098	901,098
Revenue-Other		559,033	82,778	641,811
Total Operating Revenue	436,734	10,489,633	983,876	11,910,243
Operating Expenses				
Wages	44,802	3,774,476	561,622	4,380,900
Benefits	11,200	746,517	85,655	843,372
Professional and Insurance		1,271,700	164,031	1,435,731
General Expenses	30,718	1,613,451	100,284	1,744,453
Purchased Services	21,499	2,338,211	78,965	2,438,675
Development Expenses		-	28,200	28,200
Total Operating Expenses	108,219	9,744,355	1,018,757	10,871,331
NET OPERATING REVENUE	328,515	745,278	(34,881)	1,038,912
<u>NON-OPERATING ACTIVITIES</u>				
Earned Entrance Fees		915,376	-	915,376
4% of Entrance Fees	240,000	146,876	-	386,876
Interest Income		182,198	17,700	199,898
Contributions		-	14,900	14,900
Finance and Interest Expense		(1,331,644)	(15,740)	(1,347,384)
Depreciation and Amortization		(1,123,109)	(30,888)	(1,153,997)
NET NON-OPERATING EXPENSES OVER REVENUE	240,000	(1,210,303)	(14,028)	(984,331)
TOTAL REVENUE OVER/(UNDER) EXPENSES	\$568,515	(\$465,025)	(\$48,909)	\$54,581

**SIGNIFICANT ASSUMPTIONS
VIRGINIA LUTHERAN HOMES, INC.**

**Brandon Oaks
PROPOSED BUDGET**

	<u>2007</u>	<u>2006</u>
Occupancy		
Independent Living:	96.00%	95.51%
Assisted Living:	96.30%	96.30%
Nursing and Rehabilitation Center:	96.77%	96.77%
Increase in IDL Monthly Service Fees:	5.50%	5.90%
Increase in Assisted Living Monthly Service Fees:	8.70%	5.50%
Increase in Nursing and Rehabilitation Center Fees:		
Semi-Private Room	12.89%	2.50%
Deluxe Semi-Private Room	-100.00%	2.53%
Private Room	13.14%	2.53%
Private Room with Bath	12.75%	2.52%
Increase in Entrance Fees (Single and Double Occupancy):		
90% Plan	2% - 3%	2% - 3%
90% Modified Plan	2% - 3%	2% - 3%
50% Plan	2% - 3%	2% - 3%
Traditional	2% - 3%	2% - 3%
Daily Room Charge for Assisted Living:	\$125.00	\$115.00
Daily Room Charge for Nursing and Rehabilitation Center:		
Semi-Private Room	\$162.00	\$143.50
Deluxe Semi-Private Room	\$0.00	\$152.25
Private Room	\$172.25	\$152.25
Private Room with Bath	\$176.85	\$156.85
Mix of Assisted Living (Beds):		
Private Pay	4	4
Lifecare – Permanent	20	20
Lifecare – Temporary	<u>2</u>	<u>2</u>
Total	26	26
Mix of Nursing and Rehabilitation Center (Beds):		
Private Pay	12	16
Medicaid	10	7
Lifecare – Permanent	22	22
Lifecare – Temporary	3	2
Medicare - Part A	<u>13</u>	<u>13</u>
Total	60	60
Targeted Move-ins for Apartment Units	18	18
Salary Increase – No Increase in Minimum Wage	3.00%	3.00%