

**BETHESDA LUTHERAN COMMUNITIES, INC.  
AND AFFILIATES**

Watertown, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2020 and 2019

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Bethesda Lutheran Communities, Inc. and Affiliates  
Watertown, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Bethesda Lutheran Communities, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of August 31, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional operating expenses for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of August 31, 2020 and 2019, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, the Organization adopted Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Report on Consolidating Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other financial information on pages 41-49 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, cash flows and functional operating expenses of the individual organizations, and are not a required part of the consolidated 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 consolidated financial statements. The consolidating and other financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Baker Tilly US, LLP*

Milwaukee, Wisconsin  
November 10, 2020

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As of August 31, 2020 and 2019

<b>ASSETS</b>	2020	2019
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,529,652	\$ 7,284,903
Accounts receivable:		
Client programs	8,452,003	7,469,331
Interest and other	614,879	839,060
Legacies	1,384,239	410,412
Supply inventories	792,065	207,730
Prepaid expenses and other current assets	1,744,057	1,101,959
Assets held for sale	-	1,800,000
Total Current Assets	25,516,895	19,113,395
<b>ASSETS WHOSE USE IS LIMITED OR RESTRICTED</b>		
Funds held on behalf of clients	2,287,033	1,625,902
Escrow deposits	1,635,923	3,586,842
Other donor restricted assets	30,629	30,626
Total Assets Whose Use is Limited or Restricted	3,953,585	5,243,370
<b>OTHER ASSETS</b>		
Investments	75,925,089	93,188,634
Assets relating to split-interest agreements and trusts	13,465,266	13,266,930
Notes receivable and other assets	1,489	40,715
Total Other Assets	89,391,844	106,496,279
<b>PROPERTY AND EQUIPMENT</b>		
	67,660,837	56,091,742
<b>TOTAL ASSETS</b>	<b>\$ 186,523,161</b>	<b>\$ 186,944,786</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,138,705	\$ 4,237,329
Salaries, wages, related withholdings and fringe benefits	7,638,573	7,692,271
Line of credit	25,790,872	35,000,000
Current portion of mortgage notes payable	234,184	213,722
Other current liabilities	1,604,699	107,533
Total Current Liabilities	41,407,033	47,250,855
<b>LONG-TERM LIABILITIES</b>		
Due to beneficiaries and others under split-interest agreements and trusts	7,771,180	7,798,961
Mortgage notes payable	10,469,360	1,220,571
Pension plan liability	21,525,529	22,302,897
Funds held on behalf of clients	1,737,811	1,056,728
Other long-term liabilities	2,029,065	1,417,180
Total Long-Term Liabilities	43,532,945	33,796,337
Total Liabilities	84,939,978	81,047,192
<b>NET ASSETS</b>		
Without donor restrictions	89,500,276	92,607,859
With donor restrictions	12,082,907	13,289,735
Total Net Assets	101,583,183	105,897,594
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 186,523,161</b>	<b>\$ 186,944,786</b>

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING PUBLIC SUPPORT</b>			
Contributions and legacies	\$ 8,323,716	\$ 1,176,115	\$ 9,499,831
Net assets released from restrictions - operations	<u>3,464,474</u>	<u>(3,464,474)</u>	<u>-</u>
Total Operating Public Support	<u>11,788,190</u>	<u>(2,288,359)</u>	<u>9,499,831</u>
<b>OPERATING REVENUE</b>			
Program service revenue	96,698,576	-	96,698,576
Investment income, net of fees	9,206,967	-	9,206,967
Retail operations income	5,534,386	-	5,534,386
Rental income	230,767	-	230,767
Gain on sale of property and equipment	2,105,189	-	2,105,189
Change in value of split-interest annuities	144,786	13	144,799
Other	<u>726,517</u>	<u>-</u>	<u>726,517</u>
Total Operating Revenue	<u>114,647,188</u>	<u>13</u>	<u>114,647,201</u>
Total Operating Public Support and Revenue	<u>126,435,378</u>	<u>(2,288,346)</u>	<u>124,147,032</u>
<b>OPERATING EXPENSES</b>			
Program expenses	111,845,381	-	111,845,381
Management and general expenses	16,932,000	-	16,932,000
Fundraising expenses	<u>3,067,030</u>	<u>-</u>	<u>3,067,030</u>
Total Operating Expenses	<u>131,844,411</u>	<u>-</u>	<u>131,844,411</u>
Change in Net Assets Before Non-Operating Activities	<u>(5,409,033)</u>	<u>(2,288,346)</u>	<u>(7,697,379)</u>
<b>NON-OPERATING ACTIVITIES</b>			
Net assets released from restrictions - property and equipment	83,507	(83,507)	-
Restricted contributions	-	1,119,113	1,119,113
Restricted investment income, net of fees	-	45,912	45,912
Adjustment to unfunded pension plan liability	<u>2,217,943</u>	<u>-</u>	<u>2,217,943</u>
Total Non-Operating Activities	<u>2,301,450</u>	<u>1,081,518</u>	<u>3,382,968</u>
<b>CHANGE IN NET ASSETS</b>	(3,107,583)	(1,206,828)	(4,314,411)
NET ASSETS - BEGINNING OF YEAR	<u>92,607,859</u>	<u>13,289,735</u>	<u>105,897,594</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 89,500,276</u>	<u>\$ 12,082,907</u>	<u>\$ 101,583,183</u>

See accompanying notes to consolidated financial statements.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING PUBLIC SUPPORT</b>			
Contributions and legacies	\$ 6,928,162	\$ -	\$ 6,928,162
Net assets released from restrictions - operations	<u>887,657</u>	<u>(887,657)</u>	<u>-</u>
Total Operating Public Support	<u>7,815,819</u>	<u>(887,657)</u>	<u>6,928,162</u>
<b>OPERATING REVENUE</b>			
Program service revenue	90,511,297	-	90,511,297
Investment income, net of fees	3,827,669	-	3,827,669
Retail operations income	6,738,540	-	6,738,540
Rental income	252,978	-	252,978
Impairment loss and loss on sale of property and equipment	(341,178)	-	(341,178)
Change in value of split-interest annuities	52,327	(12,693)	39,634
Other	<u>723,935</u>	<u>-</u>	<u>723,935</u>
Total Operating Revenue	<u>101,765,568</u>	<u>(12,693)</u>	<u>101,752,875</u>
Total Operating Public Support and Revenue	<u>109,581,387</u>	<u>(900,350)</u>	<u>108,681,037</u>
<b>OPERATING EXPENSES</b>			
Program expenses	107,140,530	-	107,140,530
Management and general expenses	20,923,973	-	20,923,973
Fundraising expenses	<u>3,824,239</u>	<u>-</u>	<u>3,824,239</u>
Total Operating Expenses	<u>131,888,742</u>	<u>-</u>	<u>131,888,742</u>
Change in Net Assets Before Non-Operating Activities	<u>(22,307,355)</u>	<u>(900,350)</u>	<u>(23,207,705)</u>
<b>NON-OPERATING ACTIVITIES</b>			
Net assets released from restrictions - property and equipment	138,406	(138,406)	-
Restricted contributions	-	1,438,141	1,438,141
Restricted investment income, net of fees	-	40,331	40,331
Adjustment to unfunded pension plan liability	<u>(13,805,995)</u>	<u>-</u>	<u>(13,805,995)</u>
Total Non-Operating Activities	<u>(13,667,589)</u>	<u>1,340,066</u>	<u>(12,327,523)</u>
<b>CHANGE IN NET ASSETS</b>	(35,974,944)	439,716	(35,535,228)
NET ASSETS - BEGINNING OF YEAR	<u>128,582,803</u>	<u>12,850,019</u>	<u>141,432,822</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 92,607,859</u>	<u>\$ 13,289,735</u>	<u>\$ 105,897,594</u>

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended August 31, 2020 and 2019

	2020	2019 (as adjusted)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (4,314,411)	\$ (35,535,228)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Bad debt expense (recovery)	-	(157,083)
Net unrealized (gain) loss on investments	(2,555,022)	1,634,790
Depreciation	4,691,369	5,705,950
Impairment and loss (gain) on sale of property and equipment	(2,105,189)	341,178
Net realized gain on investments	(4,868,673)	(3,071,359)
Net change in split interest agreements	(306,910)	82,201
Contributions restricted for endowment	(357,595)	-
Restricted investment income, net	(45,912)	(40,331)
Change in beneficial interest in assets held by others	80,790	106,817
Adjustment to unfunded pension plan liability	(2,217,943)	13,805,995
Changes in assets and liabilities		
Client programs receivable	(982,672)	89,193
Interest and other receivable	224,181	338,997
Legacies receivable	(973,827)	9,133,020
Supply inventories	(584,335)	29,029
Prepaid expenses and other current assets	(642,098)	(46,164)
Notes receivable and other assets	39,226	1,460
Funds held on behalf of clients	681,083	(524,848)
Accounts payable	(929,086)	(638,564)
Salaries, wages, related withholdings and fringe benefits	(53,698)	(219,488)
Pension plan liability	1,440,575	(1,554,908)
Other current liabilities	1,363,251	64,814
Other long-term liabilities	177,681	540,479
Net Cash Flows from Operating Activities	(12,239,215)	(9,914,050)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,754,621)	(4,665,754)
Proceeds from sale of property and equipment	4,468,254	1,287,522
Purchase of investments	(27,878,894)	(28,545,335)
Proceeds from sale of investments	52,566,134	41,134,124
Net Cash Flows from Investing Activities	25,400,873	9,210,557
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	(9,209,128)	-
Principal payments on mortgage notes payable	(213,720)	(195,368)
Net restricted investment income	45,912	40,331
Contributions restricted for endowment	357,595	-
Principal payments on capital leases	(187,356)	-
Net Cash Flows from Financing Activities	(9,206,697)	(155,037)
<b>Net Change in Cash and Cash Equivalents and Restricted Cash</b>	3,954,961	(858,530)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of Year	12,497,647	13,356,177
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR</b>	\$ 16,452,608	\$ 12,497,647
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 857,446	\$ 1,319,491
Capitalized interest	\$ 152,298	\$ -
Noncash investing and financing activities:		
Purchases of property and equipment in accounts payable	\$ 4,005,275	\$ 1,174,813
Purchases of property and equipment financed with capital leases	\$ 755,475	\$ -
Purchases of property and equipment financed with mortgage notes payable	\$ 9,482,971	\$ -
Loan origination fees financed with mortgage notes payable	\$ 128,936	\$ -
<b>Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Statements of Financial Position:</b>		
	2020	2019
Cash and cash equivalents	\$ 12,529,652	\$ 7,284,903
Funds held on behalf of clients	2,287,033	1,625,902
Escrow deposits	1,635,923	3,586,842
Total cash and cash equivalents and restricted cash	\$ 16,452,608	\$ 12,497,647

See accompanying notes to consolidated financial statements.



## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATED STATEMENT OF FUNCTIONAL OPERATING EXPENSES For the Year Ended August 31, 2020

	Program	Management and General	Fundraising	Total
Salaries	\$ 66,232,564	\$ 10,220,728	\$ 1,707,725	\$ 78,161,017
Payroll taxes and benefits	14,649,112	(637,078)	310,253	14,322,287
Supplies	4,173,759	324,041	134,833	4,632,633
Repairs	1,764,722	60,411	618	1,825,751
Client professional and other services	5,529,887	315	85	5,530,287
Staff development	208,664	957,903	12,027	1,178,594
Legal, audit and other professional services	779,249	2,490,089	548,346	3,817,684
Other general outside services	3,462,267	952,808	179,984	4,595,059
Travel, meals, lodging and gasoline	1,018,771	314,586	112,934	1,446,291
Rent	2,793,241	190,602	-	2,983,843
Telephone and internet services	1,189,352	174,417	14,549	1,378,318
Electricity, natural gas, water and sewer	1,576,532	150,563	-	1,727,095
Property and liability insurance	2,078,449	254,271	17,941	2,350,661
Depreciation and amortization	4,088,025	600,751	2,593	4,691,369
Interest	145,183	710,640	-	855,823
Medicaid assessment fees	1,192,623	-	-	1,192,623
All other	962,981	166,953	25,142	1,155,076
<b>Total Expenses</b>	<b><u>\$ 111,845,381</u></b>	<b><u>\$ 16,932,000</u></b>	<b><u>\$ 3,067,030</u></b>	<b><u>\$ 131,844,411</u></b>

See accompanying notes to consolidated financial statements.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATED STATEMENT OF FUNCTIONAL OPERATING EXPENSES For the Year Ended August 31, 2019

	Program	Management and General	Fundraising	Total
Salaries	\$ 61,330,893	\$ 11,002,536	\$ 1,835,039	\$ 74,168,468
Payroll taxes and benefits	14,337,527	2,067,124	328,294	16,732,945
Supplies	4,091,611	227,904	96,223	4,415,738
Repairs	2,220,598	61,315	-	2,281,913
Client professional and other services	4,639,435	204	-	4,639,639
Staff development	203,263	1,180,294	31,780	1,415,337
Legal, audit, and other professional services	371,097	2,437,089	201,559	3,009,745
Other general outside services	3,512,944	931,079	1,096,313	5,540,336
Travel, meals, lodging and gasoline	1,622,458	504,530	184,857	2,311,845
Rent	3,070,370	113,537	-	3,183,907
Telephone and internet services	1,161,582	191,137	15,913	1,368,632
Electricity, natural gas, water and sewer	1,640,152	193,656	-	1,833,808
Property and liability insurance	1,960,349	246,780	15,176	2,222,305
Depreciation and amortization	4,883,145	819,595	3,210	5,705,950
Interest	145,123	1,181,077	-	1,326,200
Medicaid assessment fees	1,241,682	-	-	1,241,682
All other	708,301	(233,884)	15,875	490,292
<b>Total Expenses</b>	<b><u>\$ 107,140,530</u></b>	<b><u>\$ 20,923,973</u></b>	<b><u>\$ 3,824,239</u></b>	<b><u>\$ 131,888,742</u></b>

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## NOTE 1 - Summary of Significant Accounting Policies

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### *Nature of Activities*

The consolidated financial statements reflect the accounts of Bethesda Lutheran Communities, Inc., Faith Village, Inc. ("Village"), Faith Village IV, Inc., Good Shepherd Residence, Inc., Creating Possibilities, Inc., Good Shepherd of Washington, Good Shepherd of Washington II, Good Shepherd of Colorado I, Good Shepherd Corporation of Oregon and The Oregon Good Shepherd Lutheran Home, Inc. (collectively referred to as "Bethesda"), Bethesda Lutheran Foundation, Inc. ("Foundation"), and Bethesda Cornerstone Village, LLC and Bethesda Cornerstone Village - Victoria, LLC (collectively referred to as "Cornerstone") (all entities collectively referred to as the "Organization") with intercompany accounts eliminated. The nine U.S. Department of Housing and Urban Development ("HUD") projects operate under the Rules and Regulations of HUD. The Organization operates residential facilities for the benefit of developmentally disabled persons.

### *Basis of Presentation*

The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America.

### *Cash and Cash Equivalents and Restricted Cash*

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of six months or less. Restricted cash includes funds held on behalf of clients and escrow deposits. The Organization does not have the ability to use these funds for operations due to contractual requirements.

### *Client Programs Receivable*

Accounts receivable are uncollateralized funding source obligations which generally are payable within 30 days from the invoice or billing date. In 2019, client accounts receivable were reported net of an allowance for doubtful accounts to represent the Organization's estimate of inherent losses, if any, at the statement of financial position date and the amount that will ultimately be collectable. The Organization analyzed the receivables and recorded a provision for uncollectible accounts based on prior collection experience. The allowance for doubtful accounts was \$258,480 as of August 31, 2019. In 2020, with the adoption of Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, contracts from revenues that are considered exchange transactions are recorded at an amount that management expects to receive from the net transaction price. Balances are recorded net of adjustments or discounts to determine the net transaction price. Billings for services under third-party payor programs are recorded net of estimated adjustments, if any. Historically, the Organization has collected substantially all of the consideration to which it is entitled under its contracts with customers. Subsequent adjustments, if any, are recognized as revenue when received. The adequacy of the Organization's net realizable receivable is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivable portfolios by payor source and aging of receivables, along with a review of specific accounts. Adjustments are made as necessary.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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### *Legacies Receivable*

Significant legacies receivable are recorded when the Organization receives documentation of the gift, no other party of interest is contesting the gift, the cash and investments are quantifiable, and real property and non-marketable investments have been valued by independent appraisal. Legacies receivable have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary as of August 31, 2020 and 2019.

Legacies receivable of \$1,384,239 and \$410,412 as of August 31, 2020 and 2019, respectively, are expected to be collected in less than one year.

### *Supply Inventories*

Inventory, which mainly consists of thrift store items and personal protective equipment and supplies, is stated at the lower of cost or market, with cost determined on the first-in, first-out basis.

### *Funds Held on Behalf of Clients*

Certain residents have deposited funds in trust accounts maintained for their benefit by the Organization in separate accounts from the main operating account. The funds are used to pay personal expenses of the residents. If a resident leaves the Organization, the balance remaining in the fund is returned to the resident.

### *Investments*

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). The Organization records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities net of fees as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

The Organization may employ derivatives and other strategies to (1) hedge against market risks, (2) arbitrage mispricing of related securities, and (3) replicate long or short positions more cost-effectively. Accordingly, derivatives in the investment portfolio may include currency forward contracts, interest and currency swaps, call and put options, debt and equity futures contracts, equity swaps, and other vehicles that may be appropriate in certain circumstances. Since the Organization does not strive for higher returns through market timing or by making leveraged market bets, derivatives are not used for speculation.

The Organization's external investment managers are authorized to use specified derivative financial instruments in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Directors.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## NOTE 1 - Summary of Significant Accounting Policies (continued)

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### *Property and Equipment*

Property and equipment are stated at cost if purchased or fair value at date of the gift if donated. Acquisitions of property and equipment in excess of \$1,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Donated property and equipment are recorded as increases in net assets without donor restrictions at their estimated fair value as of the date received. Contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service unless otherwise instructed by donor.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

The Organization has recorded a liability of \$250,382 and \$327,684 for estimated asbestos clean-up costs as of August 31, 2020 and 2019, respectively, and it is presented as other long-term liabilities in the consolidated statements of financial position.

### *Assets Held for Sale*

All properties held for sale are recorded at historical cost net of accumulated depreciation at the time the assets were classified as held for sale or net realizable value, whichever is lower. During 2018, the Organization closed certain programs and was marketing nine buildings for sale with net book value totaling \$4,427,358. During 2019, the Organization sold four of the buildings with total gross proceeds of \$889,590, one building remained on the market with a fair value of \$1,800,000 and four of the buildings were placed back into service. During 2020, the Organization sold the remaining building with total gross proceeds of \$1,742,745.

### *Impairment of Long-Lived Assets*

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. The Organization has recorded impairment losses of \$0 and \$920,639 during the years ending August 31, 2020 and 2019, respectively.

### *Assets Relating to Split-Interest Agreements and Trusts*

The Organization is the trustee of various split-interest agreements. The trusts and the assets held are recorded at fair value and are reported in the consolidated statements of financial position. In addition, the Organization is a specified beneficiary of assets held by others and has recorded a beneficial interest in these assets.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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### *Assets Relating to Split-Interest Agreements and Trusts* (continued)

Assets received under split-interest agreements and trusts are recorded at their fair value. The Organization records a liability when a split-interest agreement (Unitrust, Annuity Trust, and Pooled Income Fund) is established at the present value of the estimated future payments to the donor and other beneficiaries. Discount rates ranging from 4.5% to 6.0% were used to project the Due to beneficiaries and others under split interest agreements and trusts liability as of August 31, 2020 and 2019. Revenue is recorded for the difference between the fair value of the assets received and the liability.

### *Net Assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

**Net Assets Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** - Net assets subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or are required to be maintained permanently.

### *Board Designated Net Assets*

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. The Organization's Board of Directors has not designated any amounts as of August 31, 2020 and 2019.

### *Tax-Exempt Status*

Bethesda Lutheran Communities, Inc., Faith Village, Inc., Faith Village IV, Inc., Good Shepherd Residence, Inc., Creating Possibilities, Inc., Good Shepherd of Washington, Good Shepherd of Washington II, Good Shepherd of Colorado I, Good Shepherd Corporation of Oregon, The Oregon Good Shepherd Lutheran Home, Inc., and Bethesda Lutheran Foundation, Inc. have received notification that each entity qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, each entity is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation.

Bethesda Cornerstone Village, LLC and Bethesda Cornerstone Village - Victoria, LLC are single member limited liability companies, solely owned by Bethesda Lutheran Communities, Inc. Bethesda Cornerstone Village, LLC and Bethesda Cornerstone Village - Victoria, LLC are not tax paying entities; instead, all revenues and expenses are reported on Bethesda Lutheran Communities, Inc.'s Form 990.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 1 - Summary of Significant Accounting Policies (continued)

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#### *Tax-Exempt Status (continued)*

The Organization follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on the tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting during interim periods. The Organization does not believe that it has any uncertain tax positions at August 31, 2020 and 2019.

#### *Program Service Revenue*

Program service revenue consists primarily of revenues from residential habilitation and non-residential habilitation services. Prior to the adoption of ASU No. 2014-09, program service revenue was recorded in the period in which services were provided and was reported at the net realizable amounts from residents, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments were accrued on an estimated basis in the period the related services were rendered and adjusted in future periods as final settlements were determined.

With the adoption of ASU No. 2014-09, residential habilitation and non-residential habilitation fee revenues are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. Contracts are signed with clients and are primarily paid by private sources or a third party payor. The Organization reviewed contracts using a portfolio approach for contracts with individual clients for residential habilitation services due to similarities in contracts. In addition, the Organization reviewed contracts using a portfolio approach for contracts with individual clients for non-residential habilitation services due to similarities in contracts. Performance obligations are determined based on the nature of the services provided. Residential habilitation and non-residential fee revenues are recognized as performance obligations are satisfied.

Under the Organization's residential habilitation agreements, which are generally for a contractual term of one year, the Organization provides daily residential habilitation services to clients for a stated daily or monthly fee. Such services include an integrated array of individually tailored daily-living supports and training in an environment where close, continuous supervision can be provided. The Organization has determined that the services included under the Organization's group home, host home and intermediate care facility agreements have the same timing and pattern of transfer and are performance obligations that are satisfied over time as the underlying services are provided and revenue is recognized accordingly. The Organization recognizes revenue under ASC 606, *Revenue Recognition from Contracts with Customers* ("ASC 606"), for its group home, host home and intermediate care facility agreements for which it has estimated that the non-lease components of such residency agreements are the predominant component of the contract.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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### *Program Service Revenue* (continued)

Under the Organization's non-residential habilitation agreements, which are also generally for a contractual term of one year, the Organization provides habilitation services to clients for a stated per-unit fee - typically fractions of an hour. Such services include community-integrated day programs, supported employment, in-home supports and behavioral supports. These services are considered separate performance obligations that are satisfied as the underlying services are provided and revenue is typically recognized over a period of time.

The Organization receives payment for services under various third-party payor programs, primarily Medicaid, and to a lesser extent from client's private sources. Although rates are generally known and considered fixed prior to services being performed, notification of rate adjustments can be received from third-party payor programs with retroactive effect. These adjustments can result in increases in payment rates due to general inflation effects or event-specific conditions, such as the current COVID-19 pandemic or may be decreases in billed amounts as a result of rate adjustments. The Organization determines the transaction price based on the terms of the contract with the payor, correspondence with the payor and historical payment trends. Changes to these estimates for retroactive adjustments are recognized in the period of the change or when the adjustment becomes known or when final settlements are determined.

The Organization determined that revenue recognized and the timing of when the revenue is recognized under the new standard is materially the same as under the previous guidance. There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources.

### *Contract Balances*

Program service revenue for residential and non-residential habilitation services is generally billed monthly in arrears under the provider agreements with the various third-party payors. Although the terms and conditions within the Organization's revenue-generating contracts vary by contract type and payor source, payment is generally received within 90 days or less from the date invoices are submitted to the payor.

Amounts of revenue that are collected from third-party payors in advance are recognized as other current liabilities until the performance obligations are satisfied. As of August 31, 2020, the Organization had deferred revenues from contracts with customers of approximately \$500,000, which is included in other current liabilities in the statements of financial position. There were no similar transactions during the year ending August 31, 2019. Substantially all of this deferred revenue is recognized in the subsequent month when the related services are provided. The Organization applied the practical expedient in Accounting Standards Codification 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.



# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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## **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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### *Retail Operations*

The Organization operates retail sales locations where primarily donated household goods and clothing are sold. Revenue is recognized when control of the promised goods or services is transferred to the customer. The transaction price for goods sold is recognized at the point of the sale transaction and includes variable consideration for discounts and estimated returns of goods for refund or exchange. Control is obtained when a customer has the ability to direct the use of and substantially all of the remaining benefits from that good. The Organization has elected to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Organization from the customer. There are no expressed or implied warranties. There is no revenue recognized for sales in prior periods. There are no contract assets or liabilities with this revenue source.

### *Contributions*

Unconditional contributions, including legacies receivable, are recognized in the period received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, whether received or made are recognized only when the conditions on which they depend are met and the promises become unconditional. The gifts are reported as net assets with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification or law that income and gains on donated funds are restricted, such income and gains are reported as contributions without donor restrictions. The Organization has one conditional contribution at August 31, 2020 of approximately \$862,000.

### *Operations*

The Organization's operating results include all operating revenues and expenses that are an integral part of its programs and supporting activities. Contributions and releases from donor restrictions to support its operating activities are also included. The measure of operations excludes net assets released from restrictions for property and equipment, restricted contributions that are not considered part of operations, restricted investment income, and adjustment to unfunded pension plan liability.

### *Expense Allocation*

The cost of providing program and supporting activities has been summarized on a functional basis within the consolidated statements of functional operating expenses. Expenses which are directly attributable to a specific program or supporting activity of the Organization are reported as expenses of that activity.

Expenses which are attributable to more than one program or supporting activity are allocated on a reasonable basis to the appropriate category. Expenses related to the office of the Chief Executive Officer and Marketing and Communications are allocated based on estimated time and effort spent in direct support or supervision of each activity. Expenses for information technology are allocated based on full time equivalent employees. Certain insurance costs are allocated based on relative value of assets or total salaries covered, as applicable.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 1 - Summary of Significant Accounting Policies (continued)

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#### *Reclassification*

For comparability, certain 2019 amounts have been reclassified to conform with classifications adopted in 2020. The reclassifications have no effect on reported amount of net assets or change in net assets.

#### *Distributions*

The Organization's regulatory agreements with HUD stipulate, among other things, that the Organization will not make distributions of assets or income to any of its officers or directors.

#### *Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Adopted Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance. The Organization adopted the new standard effective for the Organization's fiscal year beginning September 1, 2019 using the modified retrospective approach and applied the guidance to all contracts at the date of initial application of the standard. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. The Organization has determined that the adoption of ASU No. 2014-09 (as amended) did not result in any significant change to the amount and timing of revenue recognized and did not result in an adjustment to net assets as of September 1, 2019.

In 2020, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adopting ASU No. 2018-08 on the modified prospective basis did not have a significant impact on the consolidated financial statements of the Organization.

In 2020, the Organization adopted ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10)*. The ASU modifies the guidance related to fair value disclosures of financial instruments. Adopting ASU No. 2016-01 did not have a significant impact on the consolidated financial statements of the Organization.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 1 - Summary of Significant Accounting Policies (continued)

#### *Adopted Accounting Pronouncements (continued)*

In 2020, the Organization adopted ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. It must be clear where the other components are reported. The organization has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2017-07 has been applied retrospectively to all periods presented. See Note 7 for information regarding the impact to the consolidated financial statements during 2019.

The Organization adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* in 2020. The amendments in this update require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-18 has been applied retrospectively to all periods presented.

As a result of the adoption of ASU No. 2016-18, the consolidated statement of cash flows of the Organization for the year ended August 31, 2019 was adjusted as follows:

	After Adoption of ASU No. 2016-18	As Originally Presented	Effect of Change
Net cash flows from operating activities	\$ (9,914,050)	\$ (9,438,900)	\$ (475,150)
Net cash flows from investing activities	9,210,557	7,059,293	2,151,264
Net change in Cash and Cash Equivalents	N/A	(2,534,644)	2,534,644
CASH AND CASH EQUIVALENTS - Beginning of year	N/A	9,819,547	(9,819,547)
CASH AND CASH EQUIVALENTS - END OF YEAR	N/A	7,284,903	(7,284,903)
Net Change in Cash and Cash Equivalents and Restricted Cash	(858,530)	N/A	(858,530)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of year	13,356,177	N/A	13,356,177
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - End of year	12,497,647	N/A	12,497,647

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

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#### *New Accounting Pronouncements*

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The new guidance modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which the FASB finalized on August 28, 2018. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2018-13 will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. Organizations that have not yet adopted will be required to apply the standard for annual periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its consolidated financial statements.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### **NOTE 2 - Liquidity and Availability of Financial Assets**

The Organization's financial assets available within one year of the statement of financial position date of August 31 for general expenditures are as follows:

	2020	2019
Total assets	\$ 186,523,161	\$ 186,944,786
Less:		
Net property and equipment	(67,660,837)	(56,091,742)
Prepaid expenses and other current assets	(1,744,057)	(1,101,959)
Supply inventories	(792,065)	(207,730)
Notes receivable and other assets	(1,489)	(40,715)
Assets held for sale	-	(1,800,000)
Total financial assets	116,324,713	127,702,640
Less:		
Assets held relating to split interest agreements and trusts	(9,363,446)	(9,084,320)
Funds held on behalf of clients	(2,287,033)	(1,625,902)
Escrow deposits	(1,635,923)	(3,586,842)
Assets with donor restrictions	(12,082,907)	(13,289,735)
Assets relating to charitable gift annuities	(6,900,741)	(8,569,672)
Assets available for general expenditures	\$ 84,054,663	\$ 91,546,169

The Organization's operations are largely funded by payments from Medicaid and other federal and state agencies, and additional capital is provided by investment returns and the controlled liquidation of foundation assets as required. The Foundation exists for the benefit of Bethesda Lutheran Communities, Inc. and Foundation assets are to be solely used to fulfill the Organization's mission. The board authorizes distributions from the Foundation up to a certain limit at the beginning of each fiscal year and adjusts funding accordingly if management identifies the need for additional cash flow during the year. The Organization has a balanced investment strategy for managing Foundation assets, which generally consists of a mix of 66% stocks, 30% fixed income, and 4% cash. The Foundation's board receives quarterly advice from the Organization's portfolio manager, Merrill Lynch, and changes to investment strategy require board approval.

At August 31, 2020, the Company had a \$45.0 million revolving line of credit with Bank of America, with an outstanding balance of approximately \$25.8 million. The line of credit bears interest at the daily LIBOR rate plus 95 basis points. The line of credit is secured by Foundation assets, and is subject to call if pledged assets fall below \$45.0 million. The Organization does not plan to increase the amount outstanding or take additional draws on the line during the next twelve months, and any action to do so would require board approval. Management is seeking to reduce the amount due on the line of credit by refinancing all or part of the current balance against real estate holdings during fiscal year 2021.

In consideration of future liquidity needs, management has presented a five-year plan to achieve cash flow neutrality. The plan includes new real estate developments under the Cornerstone Village brand, investment in retail operations and philanthropic resources, and continuing to pursue growth in intellectual and developmental disabilities based operations. Additionally, management is evaluating various real estate holdings to determine the best use of each for the Organization, including potential sale.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### **NOTE 3 - Fair Value Measurements**

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The Organization follows current authoritative accounting guidance, which provides a framework for measuring, reporting, and disclosing fair value under generally accepted accounting principles. These standards apply to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined by current authoritative guidance, 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 Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, the Organization 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.

Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 3 - Fair Value Measurements (continued)

The tables below present the balances of financial instruments measured at fair value on a recurring basis by level within the hierarchy.

	August 31, 2020			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds	\$ 48,890,506	\$ 48,890,506	\$ -	\$ -
Common and preferred stock	7,277,059	7,277,059	-	-
Church extension funds	6,742	-	6,742	-
Fixed income securities	11,626,083	11,626,083	-	-
Hedge funds	273,004	-	-	273,004
Mutual funds - charitable gift annuities	5,792,589	5,792,589	-	-
Fixed income securities - charitable gift annuities	243,180	243,180	-	-
Mutual funds - 457 plan investments	950,954	950,954	-	-
Total investments	<u>75,060,117</u>	<u>\$ 74,780,371</u>	<u>\$ 6,742</u>	<u>\$ 273,004</u>
Money market funds - charitable gift annuities	864,972			
Total assets	<u>\$ 75,925,089</u>			
Assets relating to split - interest agreements and trusts				
Fixed income mutual funds	\$ 3,926,162	\$ 3,926,162	\$ -	\$ -
Equity mutual funds	5,068,247	5,068,247	-	-
Beneficial interest in assets held by others	4,101,820	-	-	4,101,820
Total investments	13,096,229	<u>\$ 8,994,409</u>	<u>\$ -</u>	<u>\$ 4,101,820</u>
Money market funds	369,037			
Total assets	<u>\$ 13,465,266</u>			

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 3 - Fair Value Measurements (continued)

	August 31, 2019			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds	\$ 58,298,349	\$ 58,298,349	\$ -	\$ -
Common and preferred stock	9,108,933	9,108,933	-	-
Church extension funds	5,840	-	5,840	-
Fixed income securities	16,126,632	16,126,632	-	-
Hedge funds	383,213	-	-	383,213
Mutual funds - charitable gift annuities	7,093,649	7,093,649	-	-
Fixed income securities - charitable gift annuities	316,481	316,481	-	-
Mutual funds - 457 plan investments	<u>695,995</u>	<u>695,995</u>	<u>-</u>	<u>-</u>
Total investments	<u>92,029,092</u>	<u>\$ 91,640,039</u>	<u>\$ 5,840</u>	<u>\$ 383,213</u>
Money market funds - charitable gift annuities	<u>1,159,542</u>			
Total assets	<u>\$ 93,188,634</u>			
Assets relating to split- interest agreements and trusts				
Fixed income mutual funds	\$ 3,938,242	\$ 3,938,242	\$ -	\$ -
Equity mutual funds	4,726,558	4,726,558	-	-
Beneficial interest in assets held by others	<u>4,182,610</u>	<u>-</u>	<u>-</u>	<u>4,182,610</u>
Total investments	<u>12,847,410</u>	<u>\$ 8,664,800</u>	<u>\$ -</u>	<u>\$ 4,182,610</u>
Money market funds	<u>419,520</u>			
Total assets	<u>\$ 13,266,930</u>			

The valuation of money market funds is determined on the cost basis. As a result, they are excluded from the fair value hierarchy level disclosures.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Mutual funds, common and preferred stock and fixed income securities - These investments are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available, including hedge funds that have a ticker symbol.

Church extension funds - These investments are measured at fair value using multiple sources of information that are corroborated by market data and are considered Level 2 items.



## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

#### **NOTE 3 - Fair Value Measurements** (continued)

Hedge funds - Investments in hedge funds, fund of funds, and other alternative investments have no readily determinable fair value and are classified as Level 3 as the valuation is based on significant unobservable inputs that are not corroborated by market data. The valuation was determined by the Organization's investment managers.

Beneficial interest in assets held by others - The trusts, that the Organization is named as a specified beneficiary in which they are not the trustee of the assets, are considered Level 3 items as the valuation is based on significant unobservable inputs that are not corroborated by market data.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Hedge Funds	Beneficial Interest in Assets Held by Others
Balance, August 31, 2018	\$ 502,172	\$ 4,289,427
Net realized and unrealized gains included in change in net assets	20,988	(106,817)
Sales	(139,947)	-
Balance, August 31, 2019	383,213	4,182,610
Net realized and unrealized losses included in change in net assets	(28,379)	(80,790)
Sales	(81,830)	-
Balance, August 31, 2020	\$ 273,004	\$ 4,101,820
Net unrealized losses included in change in net assets relating to assets held at August 31, 2020	\$ (50,589)	\$ 80,790
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2019	\$ 7,489	\$ (106,817)

Unrealized net losses included in change in net assets are reported in the consolidated statements of activities as investment income for the hedge funds and restricted contributions for the beneficial interest in assets held by others.

Level 3 hedge funds consist of one fund at August 31, 2020 and two funds at August 31, 2019. The fund is valued based on unobservable inputs and is deemed an alternative investment. To withdraw funds from this investment, the Organization is required to submit a written request and is limited to one request per quarter. The investment company can deny the request to withdraw funds. The Organization has no unfunded commitments relating to this investment. The Organization has taken steps to liquidate this Level 3 hedge fund and plans to complete the liquidation process within the next year.

The Level 3 hedge funds seek to invest in companies in various stages of development and are allocated among alternative investment managers. The funds pursue a variety of investment strategies. The primary objective of the hedge funds is to provide capital appreciation with less volatility than that of the equity market.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

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#### NOTE 3 - Fair Value Measurements (continued)

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The Organization also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets that are measured at the lower of carrying value or market, less costs to sell, and had a fair value below carrying value at August 31, 2019. There were no similar transactions during the year ending August 31, 2020.

	2019			
	Total	Level 1	Level 2	Level 3
Assets held for sale	<u>\$ 1,800,000</u>	<u>\$ -</u>	<u>\$ 1,800,000</u>	<u>\$ -</u>

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#### NOTE 4 - Escrow Deposits

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Escrow deposits include \$13 and \$2,028,405 on deposit with the Lutheran Church Extension Fund ("LCEF") as of August 31, 2020 and 2019, respectively. The funds are solely for construction costs related to a new mixed-use rental property in Victoria, Minnesota under ownership of Cornerstone Village-Victoria, LLC. Additionally, the Organization has \$8,300 and \$15,300 in escrow deposits with various entities related to the construction project as of August 31, 2020 and 2019, respectively.

Monthly escrow deposits are made as required by HUD for the reserve for replacements and are maintained in interest bearing accounts separate from the operating account of the HUD projects. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this escrow reverts to the benefit of the project. The balances in the reserve for replacement escrow accounts were \$1,335,278 and \$1,251,048 as of August 31, 2020 and 2019, respectively.

HUD requires the HUD projects to remit all cash remaining, if any, after the establishment of all required escrows and reserves and the payment of all expenses and allowable disbursements to a residual receipts fund on an annual basis. Deposits are made within 90 days after year-end and are maintained in interest bearing accounts separate from the operating accounts of the HUD projects. Withdrawals may be made with permission from HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to capital advance, the balance in this fund reverts to the benefit of HUD. The balances in the residual receipts escrow accounts were \$285,732 and \$285,492 as of August 31, 2020 and 2019, respectively.

HUD escrow deposits for insurance reserves were \$6,600 and \$6,597 as of August 31, 2020 and 2019, respectively.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 5 - Investments

Following is a summary of investments as of August 31:

	2020	2019
Common and preferred stocks	\$ 7,277,059	\$ 9,108,933
Fixed income securities	11,626,083	16,126,632
Mutual funds	48,890,506	58,298,349
Mutual funds - charitable gift annuities	5,792,589	7,093,649
Fixed income securities - charitable gift annuities	243,180	316,481
Church extension funds	6,742	5,840
Hedge funds	273,004	383,213
Mutual funds - 457 plan investments	950,954	695,995
Money market funds - charitable gift annuities	864,972	1,159,542
Total	\$ 75,925,089	\$ 93,188,634

The Organization invests in various securities which, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

The asset allocation size and style mix is as follows as of August 31:

	2020	2019
Large cap growth	24%	23%
Large cap value	24%	26%
Small/mid cap growth	2%	2%
Small/mid cap value	4%	4%
International equity	11%	12%
Long term bonds	7%	4%
Intermediate term bonds	6%	7%
Short term bonds	9%	8%
Fixed income blend	6%	11%
Cash	7%	3%

Cash reflected within the investment portfolio mix above includes money market funds which are reflected as cash and cash equivalents in the statements of financial position.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 6 - Property and Equipment

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The major categories of property and equipment at August 31 are summarized as follows:

	Depreciable Lives	2020	2019
Land and land improvements	5-40 yrs.	\$ 16,008,716	\$ 17,031,026
Buildings, improvements and capitalized maintenance	5-40 yrs.	77,852,916	79,082,368
Fixed and moveable equipment	3-20 yrs.	28,593,180	27,945,076
Construction in progress	N/A	<u>16,188,587</u>	<u>1,686,558</u>
Total Property and Equipment		138,643,399	125,745,028
Less: Accumulated depreciation		<u>(70,982,562)</u>	<u>(69,653,286)</u>
Net Property and Equipment		<u>\$ 67,660,837</u>	<u>\$ 56,091,742</u>

The amounts held in construction in progress primarily relates to Bethesda Cornerstone Village - Victoria LLC's construction of a new mixed-use rental property in Victoria, Minnesota.

The gain on sale of property and equipment of \$2,105,189 for the year ending August 31, 2020 primarily relates to a sale of land.

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### NOTE 7 - Retirement Plans

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#### *403(b) Plan*

The Organization has a contributory 403(b) defined contribution plan that covers substantially all full-time employees. Participating employees are eligible to receive an employer matching contribution, which is established annually by the Board of Directors. The contribution for the years ended August 31, 2020 and 2019 was \$1,064,841 and \$1,047,881, respectively.

#### *Defined Benefit Plan*

The Organization had a noncontributory retirement plan covering substantially all of the Organization's employees who had completed one year of service (as defined) and were over 18 years of age. The Organization's policy is to contribute annually the amount required. The measurement date on the defined benefit retirement plan is August 31.

Effective December 31, 2012 the Organization froze the defined benefit plan, which prevented additional accumulation of benefits for current employees and prevented new employees from joining the plan.

In October 2019, the Organization confirmed the designation of church plan status for its frozen defined benefit pension plan. The pension plan is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA").

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 7 - Retirement Plans (continued)

#### Defined Benefit Plan (continued)

	2020	2019
Change in Benefit Obligation		
Accumulated benefit obligation at beginning of year	\$ 91,901,966	\$ 80,306,791
Service cost	440,575	445,092
Interest cost	2,692,853	3,182,666
Actuarial loss	4,103,610	13,605,492
Benefits paid and administrative costs	<u>(4,784,132)</u>	<u>(5,638,075)</u>
Accumulated benefit obligation at end of year	<u>\$ 94,354,872</u>	<u>\$ 91,901,966</u>
Change in plan assets	2020	2019
Fair value of plan assets at beginning of year	\$ 68,599,069	\$ 68,254,981
Employer contribution	-	3,000,000
Actual return on plan assets	9,014,406	2,982,163
Benefits paid and administrative costs	<u>(4,784,132)</u>	<u>(5,638,075)</u>
Fair value of plan assets at end of year	<u>\$ 72,829,343</u>	<u>\$ 68,599,069</u>
Funded status of the plan	<u>\$ (21,525,529)</u>	<u>\$ (23,302,897)</u>

Since benefit accruals have been frozen, the projected benefit obligation is equal to the accumulated benefit obligation at August 31, 2020 and 2019.

Amounts recognized in the consolidated statements of financial position consist of:

	2020	2019
Accrued benefit cost - included in salaries, wages, related withholdings and fringe benefits	\$ -	\$ (1,000,000)
Pension plan liability	<u>(21,525,529)</u>	<u>(22,302,897)</u>
Total	<u>\$ (21,525,529)</u>	<u>\$ (23,302,897)</u>

Components of the net periodic benefit cost consist of the following for the years ended August 31:

	2020	2019
Service cost	\$ 440,575	\$ 445,092
Interest cost	2,692,853	3,182,666
Expected return on plan assets	(4,519,723)	(4,532,380)
Recognized actuarial loss	<u>903,929</u>	<u>442,482</u>
Total net periodic benefit cost	<u>\$ (482,366)</u>	<u>\$ (462,140)</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 7 - Retirement Plans (continued)

#### *Defined Benefit Plan (continued)*

In 2020, the Organization adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Service cost in 2020 and 2019 was \$440,575 and \$445,092, respectively. The other components of the net periodic benefit cost are \$(922,941) and \$(907,232) in 2020 and 2019, respectively. The other components of the net periodic pension cost are included in the adjustment to unfunded pension plan on the consolidated statements of activities.

Included in net assets without donor restrictions at August 31, 2020 and 2019 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized actuarial net losses of \$34,913,627 and \$36,208,629, respectively.

Expected components of subsequent year's net periodic benefit cost:

	2021	2020
Service cost	\$ 494,501	\$ 440,575
Interest cost	2,454,054	2,692,853
Expected return on assets	(4,597,591)	(4,519,723)
Amortization of net loss	856,120	903,929
Total net periodic postretirement benefit costs	\$ (792,916)	\$ (482,366)

The actuarial assumptions used to develop the net periodic benefit cost for the years ended August 31 were as follows:

	2020	2019
Weighted average discount rate	3.00%	4.07%
Increase in future compensation levels	N/A	N/A
Expected long-term rate of return on assets	6.50%	6.75%

The actuarial assumptions used to develop the benefit obligation were as follows:

	2020	2019
Discount rate	2.66%	3.00%
Increase in future compensation levels	N/A	N/A

The following benefit payments are expected to be paid:

2021	\$	3,706,335
2022		3,946,722
2023		3,871,138
2024		3,898,145
2025		3,958,483
2025-2028		21,187,675

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 7 - Retirement Plans (continued)

#### *Defined Benefit Plan (continued)*

Management is not able to appropriately determine the exact amount that will be contributed to this retirement plan during the fiscal year ending August 31, 2021. It is reasonably possible that the above estimate of subsequent year's net periodic post retirement benefit cost will change as it is based on no contributions to the plan in the next fiscal year.

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

The table below presents the balances of financial instruments within the retirement plan measured at fair value on a recurring basis by level within the hierarchy:

	August 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 50,539,559	\$ 50,539,559	\$ -	\$ -
Fixed income	20,418,404	20,418,404	-	-
Hedge funds	<u>122,541</u>	<u>-</u>	<u>-</u>	<u>122,541</u>
Total investments	71,080,504	<u>\$ 70,957,963</u>	<u>\$ -</u>	<u>\$ 122,541</u>
Money market funds	<u>1,748,839</u>			
Total assets	<u>\$ 72,829,343</u>			
	August 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 45,726,565	\$ 45,726,565	\$ -	\$ -
Fixed income	19,789,638	19,789,638	-	-
Hedge funds	<u>170,452</u>	<u>-</u>	<u>-</u>	<u>170,452</u>
Total investments	65,686,655	<u>\$ 65,516,203</u>	<u>\$ -</u>	<u>\$ 170,452</u>
Money market funds	<u>2,912,414</u>			
Total assets	<u>\$ 68,599,069</u>			

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

#### **NOTE 7 - Retirement Plans** (continued)

##### *Defined Benefit Plan* (continued)

The asset allocation size and style mix is as follows as of August 31:

	2020	2019
Large cap growth	26%	24%
Large cap value	28%	27%
Small/mid cap growth	2%	2%
Small/mid cap value	4%	6%
International equity	10%	9%
Long term bonds	7%	4%
Intermediate term bonds	6%	6%
Short term bonds	9%	7%
Fixed income blend	6%	12%
Cash	2%	3%

The assets measured, reported, and disclosed at fair value listed above as level 1, 2, or 3 are classified based on the category definitions listed in Note 3.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Hedge Funds
Balance, August 31, 2018	\$ 224,508
Net gains (realized and unrealized)	9,399
Sales	(63,455)
Balance, August 31, 2019	170,452
Net losses (realized and unrealized)	(11,181)
Sales	(36,730)
Balance, August 31, 2020	\$ 122,541

The Organization has delegated authority for the administration and investment of the retirement plan to five trustees. The philosophy of management is to maximize the amounts available for the payment of pension benefits, provide necessary liquidity to facilitate pension payments, and provide diversification of investment vehicles sufficient to create an acceptable level of investment risk. The investment policy on plan assets is to have a target of 65% in equities, target of 30% invested in fixed income securities, and a target of 5% in cash and cash equivalents. Management determined the expected rate of return on assets based on historical performance and investment portfolio allocations.



## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### **NOTE 8 - Assets Relating to Split-Interest Agreements and Trusts**

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The Organization has four types of split-interest agreements.

The annuity funds include the accounts of individuals who have made deposits under a gift annuity agreement which provides for payments at a stipulated rate during their lifetime. Upon termination, the individual's account balance becomes the property of the Organization.

Bethesda Lutheran Home Pooled Income Funds ("Funds") acts as vehicles for giving to the Organization. The Organization has been designated trustee for the Funds. Contributions deposited into the Funds are invested and reinvested by the trustee in accordance with a trust agreement. Investment earnings, as defined in the trust agreement, are distributed quarterly, in the month following the end of the quarter, to donor-designated beneficiaries based upon the donor's pro rata share (units of participation) in the total investment pool. Upon the death of the last beneficiary, the remaining interest in the donor's contribution is severed from the Funds, any other identified beneficiaries are paid in accordance with the terms of the agreement and any remaining funds become available for the operation of the Organization.

Unitrusts also act as vehicles for giving to the Organization. Amounts received are invested and the agreements provide for specified payments to beneficiaries for a term chosen by the donor. When the term has ended, remaining assets are distributed in accordance with the unitrust agreement, most of which identify the Organization as the remainder beneficiary.

The Good Shepherd Fund and Lutheran Church Missouri Synod - Foundation are the trustees for several funds where the Organization is the beneficiary. The assets are held by these trustees, with the Organization having a beneficial interest in the assets and the income.

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### **NOTE 9 - Line of Credit**

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The Organization has a \$45,000,000 line of credit with Bank of America with a variable interest rate of LIBOR plus 0.95% (at August 31, 2020 and 2019 the interest rate was 1.11% and 3.04%, respectively). The line of credit is secured by a guarantee of the Foundation and collateral, which consists of a portion of the Foundation's investments.

The amount borrowed on the line of credit was \$25,790,872 and \$35,000,000 at August 31, 2020 and 2019, respectively. Interest expense on the line of credit was \$710,640 and \$1,181,077 for the years ended August 31, 2020 and 2019, respectively.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### **NOTE 10 - Mortgage Notes Payable**

Mortgage notes payable consist of the following at August 31:

	2020	2019
<p>Construction note payable to LCEF, \$14.7 million delayed-draw construction loan, bearing interest at an initial rate of 5.25% annually. The agreement includes a conversion to a permanent financing agreement with an expected conversion date of August 1, 2021 and a maturity date of August 1, 2031. Beginning in September 2019, payments of interest only are due on the disbursed principal balance outstanding. Once converted, the mortgage note will bear interest at an initial variable rate of 4.75%. Beginning in September 2021, the loan agreement calls for 119 monthly payments of principal and interest, with a final 120th balloon payment of all remaining principal and interest. The note will be amortized over a period of 360 months. The note payable is secured by a mortgage on the property and includes a \$2.0 million limited guarantee provided by the Foundation.</p>	\$ 9,611,907	\$ -
<p>Mortgage note payable to HUD, secured by the real property, payable in monthly installments of \$4,334 including interest at 9.25%, due June 30, 2023.</p>	129,185	167,302
<p>Mortgage note payable to HUD with monthly payments of \$1,602 including interest at 8.125%, due February 28, 2031, secured by a mortgage on the Organization's land, buildings, and equipment.</p>	135,488	143,351
<p>Note payable to the Mental Health Division-State of Oregon, unsecured, \$28 to \$86 is forgiven each month that the Organization uses the property for its stated purpose through May 2021.</p>	774	1,806
<p>Mortgage note payable to HUD, secured by the real property, payable in monthly installments of \$12,803 including interest at 9.250%, due April 2022.</p>	227,658	353,827
<p>Mortgage note payable to HUD, secured by the real property, payable in monthly installments of \$3,633 including interest at 8.375%, due November 2031.</p>	317,005	333,305
<p>Mortgage note payable to HUD, secured by the real property, payable in monthly installments of \$3,881 including interest at 8.375%, due May 2031.</p>	329,386	347,542

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

#### **NOTE 10 - Mortgage Notes Payable (continued)**

	<u>2020</u>	<u>2019</u>
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of \$1,140 including interest at 9.000%, due February 2029.	\$ 81,077	\$ 87,160
Totals	10,832,480	1,434,293
Less: Current portion	<u>(234,184)</u>	<u>(213,722)</u>
Long-Term Portion	10,598,296	1,220,571
Less: loan costs, net of accumulated amortization	<u>(128,936)</u>	-
Total Long-Term Portion, Net	<u>\$ 10,469,360</u>	<u>\$ 1,220,571</u>

Interest expense on mortgage notes payable was \$119,717 and \$138,414 for the years ended August 31, 2020 and 2019, respectively. Capitalized interest on the construction loan payable was \$152,298 and \$0 for the years ended August 31, 2020 and 2019, respectively. The Organization incurred loan origination fees of \$128,936 related to the construction loan. The loan origination fees will be amortized over the term of the mortgage on a straight line basis.

The Organization is subject to certain restrictions and covenants relating to their notes payable. The Organization represents that it is in compliance with or has received a waiver for all covenants as of August 31, 2020 and 2019.

Principal requirements on mortgage notes payable for years ending after August 31, 2020 are as follows:

2021	\$ 234,184
2022	419,292
2023	341,056
2024	317,318
2025	335,359
Thereafter	<u>9,185,271</u>
Total	<u>\$ 10,832,480</u>

#### **NOTE 11 - Self-Insurance**

The Organization has a self-insurance program for health coverage of employees. The Organization self insures benefits under its health plan up to a stop loss of \$250,000 per individual, and up to a maximum liability in the aggregate that fluctuates based on the number of participants. Benefit claims are accrued as incurred. The Organization has recorded a liability for unpaid claims of \$866,003 and \$827,304 as of August 31, 2020 and 2019, respectively.

The liability for the self-insurance program is subject to various estimates such as the number of claims submitted during the year which the Organization has not yet been made aware and the costs of such claims. Due to the level of uncertainty associated with the liability, it is reasonably possible that claims made could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 12 - Net Assets With Donor Restrictions

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Net assets with donor restrictions at August 31 are composed of:

	<u>2020</u>	<u>2019</u>
Restricted due to time or purpose:		
Time restricted	\$ 2,201	\$ 2,187
Purpose restricted	2,204,625	2,675,520
Irrevocable trust held by a third party	253,482	253,482
Held by Lutheran Church Extension Fund - Missouri Synod	2,076,508	2,157,299
Restricted due to requirements to hold in perpetuity:		
Restricted for endowment	5,774,263	6,429,419
Held by Good Shepherd Fund	<u>1,771,828</u>	<u>1,771,828</u>
Totals	<u>\$ 12,082,907</u>	<u>\$ 13,289,735</u>

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### NOTE 13 - Endowment

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The Organization follows current authoritative guidance, which provides guidance on classifying net assets associated with endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). A key component of the guidance is a requirement to classify the donor-restricted endowment fund as net assets with donor restrictions until appropriated for expenditure. Another key component is a requirement for expanded disclosures about all endowment funds.

The Organization's endowment fund ("Endowment Fund") consists of approximately 30 individual funds established for a variety of purposes. The Organization excludes from the Endowment Fund assets held on its behalf by outside organizations. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Organization has interpreted UPMIFA enacted in the State of Wisconsin as requiring the creation of an endowment of permanent duration with the original value of a donor's gift when a donor's gift instrument evidences such intent by use of terminology consistent with UPMIFA, unless other language in the gift instrument limits the duration or purpose of the fund. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund is included in net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

#### **NOTE 13 - Endowment** (continued)

In accordance with UPMIFA, unless the donor's gift instrument otherwise specifically limits the authority to appropriate for expenditure or accumulate, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Endowment net asset composition by type of fund consists of the following at August 31:

2020				
With Donor Restrictions				
Without Donor Restrictions	Original Gifts	Accumulated Gain (Losses)	Total	Total Endowment
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 5,774,263</u>	<u>\$ 157,327</u>	<u>\$ 5,931,590</u>
2019				
With Donor Restrictions				
Without Donor Restrictions	Original Gifts	Accumulated Gain (Losses)	Total	Total Endowment
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 6,429,419</u>	<u>\$ 145,348</u>	<u>\$ 6,574,767</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

### NOTE 13 - Endowment (continued)

Changes in endowment net assets for the year ended August 31, 2020:

	2020				
	Without Donor Restrictions	With Donor Restrictions			Total Endowment
		Original Gifts	Accumulated Gain (Losses)	Total	
Endowment net assets, beginning of year	\$ -	\$ 6,429,419	\$ 145,348	\$ 6,574,767	\$ 6,574,767
Investment income, net of fees	-	15,167	733,985	749,152	749,152
Contributions	-	357,595	-	357,595	357,595
Amounts appropriated for expenditure*	-	(1,027,918)	(722,006)	(1,749,924)	(1,749,924)
Endowment net assets, end of year	\$ -	\$ 5,774,263	\$ 157,327	\$ 5,931,590	\$ 5,931,590

\* The Organization continually reviews funds with donor restrictions to ensure these restrictions are being met. Due to new information and analysis, management released \$1,027,918 of previously permanently restricted funds during the fiscal year ended August 31, 2020.

Changes in endowment net assets for the year ended August 31, 2019:

	2019				
	Without Donor Restrictions	With Donor Restrictions			Total Endowment
		Original Gifts	Accumulated Gain (Losses)	Total	
Endowment net assets, beginning of year	\$ -	\$ 6,409,860	\$ 137,894	\$ 6,547,754	\$ 6,547,754
Investment income, net of fees	-	19,559	289,575	309,134	309,134
Amounts appropriated for expenditure	-	-	(282,121)	(282,121)	(282,121)
Endowment net assets, end of year	\$ -	\$ 6,429,419	\$ 145,348	\$ 6,574,767	\$ 6,574,767

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 13 - Endowment (continued)

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**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of August 31, 2020 and 2019. These deficiencies would result from unfavorable market fluctuations that occurred shortly after the investment of new endowment contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in the endowment.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Organization considers all endowment earnings to be appropriated for expenditure in the same year the amounts are earned, unless there are donor restrictions on the earnings. For ease of tracking, investment earnings with donor restrictions are transferred to Bethesda Lutheran Communities, Inc. and are reported as net assets with donor restrictions. The Organization has elected to reflect the investment earnings that are appropriated for expenditure within the same year as investment income without donor restrictions in the consolidated statements of activities.

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### NOTE 14 - Leases

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The Organization has operating leases for various properties, land, office space, vehicles, and equipment for the operation of its activities. There are also numerous leases that are on a month-to-month basis.

Future minimum operating lease payments as of August 31 are as follows:

2021	\$ 2,109,599
2022	1,188,526
2023	514,223
2024	75,391
2025	3,020
Thereafter	<u>90,000</u>
Total	<u>\$ 3,980,759</u>

Rent expense on these operating leases was \$2,865,453 and \$2,857,941 for the years ended August 31, 2020 and 2019, respectively.

In fiscal year 2019 and 2020, the Organization entered into capital leases agreements for the use of vehicles. The capitalized cost of the lease property at August 31, 2020 and 2019 was \$1,294,184 and \$538,709, respectively. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$145,311 and \$40,641 as of August 31, 2020 and 2019, respectively.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2020 and 2019

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#### NOTE 14 - Leases (continued)

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Capital lease obligations are included in other current liabilities and other long-term liabilities on the consolidated statements of financial position. Interest expense related to capital leases was \$25,466 and \$6,709 for the years ended August 31, 2020 and 2019, respectively.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of August 31:

2021	\$ 200,681
2022	200,681
2023	200,681
2024	159,160
2025	<u>358,517</u>
Total Future Minimum Lease Payments	1,119,720
Less: Amount representing interest	<u>(91,370)</u>
Total	1,028,350
Less: Current portion	<u>(200,681)</u>
Long-Term Capital Lease Obligation	<u>\$ 827,669</u>

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#### NOTE 15 - Fiduciary Responsibilities

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The Foundation acts as trustee for the Bethesda Lutheran Home Pooled Income Funds and certain Unitrust Funds and Annuity Trusts ("Fund"). As trustee, the Foundation distributes income earned on investments to donor-designated beneficiaries in accordance with trust agreements. Upon the death of the last beneficiary or expiration of the trust, the remaining interest in a donor's contribution is severed from the Fund and becomes available for maintenance and benefit of Bethesda or the Foundation unless another beneficiary is specified. In addition, the Foundation acts as trustee for supplementary trusts, the beneficiaries of which are clients. All assets included in these funds and trusts are included in assets relating to split-interest agreements and trusts in the consolidated statements of financial position in the amount of \$9,363,446 and \$9,084,320 as of August 31, 2020 and 2019, respectively. The amount due to beneficiaries as of August 31, 2020 and 2019 was \$3,696,964 and \$3,728,575, respectively.

Annuity funds include the accounts of individuals who have made deposits under a gift annuity agreement which provides for payments at a stipulated rate during their lifetime. Upon termination, the individual's account balance becomes the property of the Organization. Assets held related to annuity funds are held in investments and were \$6,900,741 and \$8,569,673 as of August 31, 2020 and 2019, respectively. The amount due to beneficiaries relating to gift annuities was \$4,074,216 and \$4,070,386 as of August 31, 2020 and 2019, respectively, and is included in due to beneficiaries and others under split interest agreements and trusts on the consolidated statements of financial position.

Discretionary trusts where the Foundation is the trustee are held and administered in accordance with the wishes of the donors. Upon the death of the donor, the trust principal and income become available for supplemental care of specified Bethesda clients ("trust beneficiary"). The trust assets are not recognized by the Foundation until the death of the trust beneficiary, or termination of the trust, and then the trust assets are reflected in the Foundation's net assets without donor restrictions.



## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### **NOTE 16 - Capital Advances**

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The Organization received capital advances of \$1,201,300 from HUD to finance the purchase of low income housing units. The advances given to the Organization were in the form of mortgage notes which bear no interest and require no repayment provided that the housing to which they relate remain available for low-income developmentally disabled persons in accordance with the appropriate regulations until dates ranging from November 2034 to February 2035. If the Organization does not comply with the terms of the agreements, the entire advance amounts plus interest at 6.625% per year would be required to be paid back to HUD. The capital advances are recorded as net assets without donor restrictions on the accompanying consolidated statements of financial position.

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### **NOTE 17 - Commitments and Contingencies**

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#### *Financial Awards from Grantors*

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

#### *Commitments*

In July 2019, the Organization committed to the construction of Bethesda Cornerstone Village-Victoria, a 52 unit Christian Centered Housing development in Victoria, Minnesota. As of August 31, 2020, the Organization has a construction contract commitment of \$14,875,798 for the construction of the building. Of this commitment, \$4,650,265 is still outstanding as of August 31, 2020. The Organization will finance this project with the construction loan described in Note 10.

#### *Litigation*

The Organization is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Organization's consolidated financial position or activities.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended August 31, 2020 and 2019

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### NOTE 18 - Revenues

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#### *Disaggregation of Revenue*

The Organization disaggregates its revenue from contracts with customers by residential and non-residential payor sources, as the Organization believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. Program service revenue by payor source is as follows for the year ending August 31, 2020:

Payor source:	
Residential	
Medicaid	\$ 82,948,228
Private	7,011,868
Other	<u>543,415</u>
Total residential	<u>90,503,511</u>
Non-residential	
Medicaid	4,074,329
Private	31,550
Other	<u>84,226</u>
Total non-residential	<u>4,190,105</u>
Total revenues from contracts with customers	94,693,616
Revenue from leases	1,768,688
Grant and other revenue	<u>236,272</u>
Total Program Service Revenues	<u>\$ 96,698,576</u>

Substantially, all of the program service revenues from contracts with customers of \$94,693,616 is recognized over time as the related performance obligations are satisfied for the year ended August 31, 2020. Additionally, substantially all amounts billed are traditionally fully collected.

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### NOTE 19 - Concentrations

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The Organization maintains cash balances in several institutions which exceed the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Organization grants credit without collateral to its residents, most of whom are insured under third-party payor agreements. Substantially all of the client programs receivable at August 31, 2020 and 2019 were from governmental third-party payors.

The Organization receives Medicaid funding from programs in various states. Medicaid reimbursement methodology varies from state to state. Approximately 90% of program service revenue was generated from services to Medicaid beneficiaries in 2020 and 2019. The Organization's client programs accounts receivable primarily consists of amounts due from Medicaid at August 31, 2020 and 2019.

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### NOTE 20 - Subsequent Events

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The Organization has evaluated subsequent events through November 10, 2020, which is the date that the consolidated financial statements were approved and available to be issued.

## **SUPPLEMENTAL INFORMATION**

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2020

	<b>ASSETS</b>				
	<u>Bethesda</u>	<u>Foundation</u>	<u>Cornerstone</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 7,468,889	\$ 4,754,870	\$ 305,893	\$ -	\$ 12,529,652
Accounts receivable:					
Client programs	8,450,403	-	1,600	-	8,452,003
Interest and other	277,628	326,172	11,079	-	614,879
Legacies	159,500	1,224,739	-	-	1,384,239
Intercompany	6,193,633	-	10,384	(6,204,017)	-
Supply inventories	792,065	-	-	-	792,065
Prepaid expenses and other current assets	<u>1,732,819</u>	<u>-</u>	<u>11,238</u>	<u>-</u>	<u>1,744,057</u>
Total Current Assets	<u>25,074,937</u>	<u>6,305,781</u>	<u>340,194</u>	<u>(6,204,017)</u>	<u>25,516,895</u>
<b>ASSETS WHOSE USE IS LIMITED OR RESTRICTED</b>					
Beneficial interest in subsidiaries	82,738,580	-	-	(82,738,580)	-
Funds held on behalf of clients	2,284,106	-	2,927	-	2,287,033
Escrow deposits	1,627,610	-	8,313	-	1,635,923
Other donor restricted assets	<u>30,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,629</u>
Total Assets Whose Use is Limited or Restricted	<u>86,680,925</u>	<u>-</u>	<u>11,240</u>	<u>(82,738,580)</u>	<u>3,953,585</u>
<b>OTHER ASSETS</b>					
Investments	3,537,461	72,387,628	-	-	75,925,089
Assets relating to split-interest agreements and trusts	4,101,820	9,363,446	-	-	13,465,266
Notes receivable and other assets	<u>1,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,489</u>
Total Other Assets	<u>7,640,770</u>	<u>81,751,074</u>	<u>-</u>	<u>-</u>	<u>89,391,844</u>
<b>PROPERTY AND EQUIPMENT</b>					
	<u>50,989,541</u>	<u>-</u>	<u>16,927,542</u>	<u>(256,246)</u>	<u>67,660,837</u>
<b>TOTAL ASSETS</b>	<u>\$ 170,386,173</u>	<u>\$ 88,056,855</u>	<u>\$ 17,278,976</u>	<u>\$ (89,198,843)</u>	<u>\$ 186,523,161</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)  
As of August 31, 2020

### LIABILITIES AND NET ASSETS

	<u>Bethesda</u>	<u>Foundation</u>	<u>Cornerstone</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 2,073,659	\$ 30,000	\$ 4,035,046	\$ -	\$ 6,138,705
Intercompany accounts payable	3,235,785	922,932	2,045,300	(6,204,017)	-
Salaries, wages, related withholdings and fringe benefits	7,638,573	-	-	-	7,638,573
Line of credit	25,790,872	-	-	-	25,790,872
Current portion of mortgage notes payable	234,184	-	-	-	234,184
Other current liabilities	1,604,699	-	-	-	1,604,699
Total Current Liabilities	<u>40,577,772</u>	<u>952,932</u>	<u>6,080,346</u>	<u>(6,204,017)</u>	<u>41,407,033</u>
<b>LONG-TERM LIABILITIES</b>					
Due to beneficiaries and others under split-interest agreements and trusts	1,694,704	6,076,476	-	-	7,771,180
Mortgage notes payable	986,389	-	9,482,971	-	10,469,360
Pension plan liability	21,525,529	-	-	-	21,525,529
Funds held on behalf of clients	1,733,285	-	4,526	-	1,737,811
Other long-term liabilities	2,029,065	-	-	-	2,029,065
Total Long-Term Liabilities	<u>27,968,972</u>	<u>6,076,476</u>	<u>9,487,497</u>	<u>-</u>	<u>43,532,945</u>
Total Liabilities	<u>68,546,744</u>	<u>7,029,408</u>	<u>15,567,843</u>	<u>(6,204,017)</u>	<u>84,939,978</u>
<b>NET ASSETS</b>					
Without donor restrictions	89,756,522	75,250,984	1,534,749	(77,041,979)	89,500,276
With donor restrictions	12,082,907	5,776,463	176,384	(5,952,847)	12,082,907
Total Net Assets	<u>101,839,429</u>	<u>81,027,447</u>	<u>1,711,133</u>	<u>(82,994,826)</u>	<u>101,583,183</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 170,386,173</u>	<u>\$ 88,056,855</u>	<u>\$ 17,278,976</u>	<u>\$ (89,198,843)</u>	<u>\$ 186,523,161</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended August 31, 2020

	Without Donor Restrictions				
	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
<b>OPERATING PUBLIC SUPPORT</b>					
Contributions and legacies	\$ 7,040,120	\$ 1,189,706	\$ 93,890	\$ -	\$ 8,323,716
Net assets released from restrictions - operations	<u>3,311,474</u>	<u>153,000</u>	<u>-</u>	<u>-</u>	<u>3,464,474</u>
Total Operating Public Support	<u>10,351,594</u>	<u>1,342,706</u>	<u>93,890</u>	<u>-</u>	<u>11,788,190</u>
<b>OPERATING REVENUE</b>					
Program service revenue	96,698,576	-	-	-	96,698,576
Investment income, net of fees	347,976	8,851,884	7,107	-	9,206,967
Retail operations income	5,534,386	-	-	-	5,534,386
Rental income	316,182	-	-	(85,415)	230,767
Gain on sale of property and equipment	2,105,189	-	-	-	2,105,189
Change in value of split-interest annuities	(141,516)	286,302	-	-	144,786
Change in beneficial interest in subsidiaries	(16,432,421)	-	-	16,432,421	-
Other	<u>674,049</u>	<u>2,086</u>	<u>50,382</u>	<u>-</u>	<u>726,517</u>
Total Operating Revenue	<u>89,102,421</u>	<u>9,140,272</u>	<u>57,489</u>	<u>16,347,006</u>	<u>114,647,188</u>
Total Operating Public Support and Revenue	<u>99,454,015</u>	<u>10,482,978</u>	<u>151,379</u>	<u>16,347,006</u>	<u>126,435,378</u>
<b>OPERATING EXPENSES</b>					
Program expenses	111,798,604	-	46,777	-	111,845,381
Management and general expenses	16,146,452	-	785,548	-	16,932,000
Fundraising expenses	<u>3,021,315</u>	<u>45,715</u>	<u>-</u>	<u>-</u>	<u>3,067,030</u>
Total Operating Expenses	<u>130,966,371</u>	<u>45,715</u>	<u>832,325</u>	<u>-</u>	<u>131,844,411</u>
Change in Net Assets Before Non-Operating Activities	<u>(31,512,356)</u>	<u>10,437,263</u>	<u>(680,946)</u>	<u>16,347,006</u>	<u>(5,409,033)</u>
<b>NON-OPERATING ACTIVITIES</b>					
Net assets released from restrictions - property and equipment	83,507	-	-	-	83,507
Adjustment to unfunded pension plan liability	2,217,943	-	-	-	2,217,943
Transfer between entities	<u>26,188,738</u>	<u>(26,188,738)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Activities	<u>28,490,188</u>	<u>(26,188,738)</u>	<u>-</u>	<u>-</u>	<u>2,301,450</u>
<b>CHANGE IN NET ASSETS</b>	(3,022,168)	(15,751,475)	(680,946)	16,347,006	(3,107,583)
NET ASSETS - BEGINNING OF YEAR	<u>92,778,690</u>	<u>91,002,459</u>	<u>2,215,695</u>	<u>(93,388,985)</u>	<u>92,607,859</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 89,756,522</u>	<u>\$ 75,250,984</u>	<u>\$ 1,534,749</u>	<u>\$ (77,041,979)</u>	<u>\$ 89,500,276</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES (continued)  
For the Year Ended August 31, 2020

	With Donor Restrictions				Consolidated
	Bethesda	Foundation	Cornerstone	Eliminations	
<b>OPERATING PUBLIC SUPPORT</b>					
Contributions and legacies	\$ 1,176,115	\$ -	\$ -	\$ -	\$ 1,176,115
Net assets released from restrictions - operations	(3,311,474)	(153,000)	-	-	(3,464,474)
Total Operating Public Support	<u>(2,135,359)</u>	<u>(153,000)</u>	<u>-</u>	<u>-</u>	<u>(2,288,359)</u>
<b>OPERATING REVENUE</b>					
Change in value of split-interest annuities	-	13	-	-	13
Change in beneficial interest in subsidiaries	(478,759)	-	-	478,759	-
Total Operating Revenue	<u>(478,759)</u>	<u>13</u>	<u>-</u>	<u>478,759</u>	<u>13</u>
Total Operating Public Support and Revenue	<u>(2,614,118)</u>	<u>(152,987)</u>	<u>-</u>	<u>478,759</u>	<u>(2,288,346)</u>
<b>NON-OPERATING ACTIVITIES</b>					
Net assets released from restrictions - property and equipment	(83,507)	-	-	-	(83,507)
Restricted contributions	1,460,052	(517,323)	176,384	-	1,119,113
Restricted investment income, net of fees	30,745	15,167	-	-	45,912
Total Non-Operating Activities	<u>1,407,290</u>	<u>(502,156)</u>	<u>176,384</u>	<u>-</u>	<u>1,081,518</u>
<b>CHANGE IN NET ASSETS</b>	(1,206,828)	(655,143)	176,384	478,759	(1,206,828)
NET ASSETS - BEGINNING OF YEAR	<u>13,289,735</u>	<u>6,431,606</u>	<u>-</u>	<u>(6,431,606)</u>	<u>13,289,735</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 12,082,907</u>	<u>\$ 5,776,463</u>	<u>\$ 176,384</u>	<u>\$ (5,952,847)</u>	<u>\$ 12,082,907</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### BETHESDA STATEMENT OF ACTIVITIES For the Year Ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING PUBLIC SUPPORT</b>			
Contributions and legacies	\$ 7,040,120	\$ 1,176,115	\$ 8,216,235
Net assets released from restrictions - operations	<u>3,311,474</u>	<u>(3,311,474)</u>	-
Total Operating Public Support	<u>10,351,594</u>	<u>(2,135,359)</u>	<u>8,216,235</u>
<b>OPERATING REVENUE</b>			
Program service revenue	96,698,576	-	96,698,576
Investment income, net of fees	347,976	-	347,976
Retail operations income	5,534,386	-	5,534,386
Rental income	316,182	-	316,182
Gain on sale of property and equipment	2,105,189	-	2,105,189
Change in value of split-interest annuities	(141,516)	-	(141,516)
Change in beneficial interest in subsidiaries	(16,432,421)	(478,759)	(16,911,180)
Other	<u>674,049</u>	<u>-</u>	<u>674,049</u>
Total Operating Revenue	<u>89,102,421</u>	<u>(478,759)</u>	<u>88,623,662</u>
 Total Operating Public Support and Revenue	 <u>99,454,015</u>	 <u>(2,614,118)</u>	 <u>96,839,897</u>
<b>OPERATING EXPENSES</b>			
Program expenses	111,798,604	-	111,798,604
Management and general expenses	16,146,452	-	16,146,452
Fundraising expenses	<u>3,021,315</u>	<u>-</u>	<u>3,021,315</u>
Total Operating Expenses	<u>130,966,371</u>	<u>-</u>	<u>130,966,371</u>
 Change in Net Assets Before Non-Operating Activities	 <u>(31,512,356)</u>	 <u>(2,614,118)</u>	 <u>(34,126,474)</u>
<b>NON-OPERATING ACTIVITIES</b>			
Net assets released from restrictions - property and equipment	83,507	(83,507)	-
Restricted contributions	-	1,460,052	1,460,052
Restricted investment income, net of fees	-	30,745	30,745
Adjustment to unfunded pension plan liability	2,217,943	-	2,217,943
Transfer from Foundation	<u>26,188,738</u>	<u>-</u>	<u>26,188,738</u>
Total Non-Operating Activities	<u>28,490,188</u>	<u>1,407,290</u>	<u>29,897,478</u>
<b>CHANGE IN NET ASSETS</b>	<u>(3,022,168)</u>	<u>(1,206,828)</u>	<u>(4,228,996)</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>92,778,690</u>	<u>13,289,735</u>	<u>106,068,425</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 89,756,522</u>	<u>\$ 12,082,907</u>	<u>\$ 101,839,429</u>



## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### FOUNDATION STATEMENT OF ACTIVITIES For the Year Ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING PUBLIC SUPPORT</b>			
Contributions and legacies	\$ 1,189,706	\$ -	\$ 1,189,706
Net assets released from restrictions - operations	153,000	(153,000)	-
Total Operating Public Support	<u>1,342,706</u>	<u>(153,000)</u>	<u>1,189,706</u>
<b>OPERATING REVENUE</b>			
Investment income, net of fees	8,851,884	-	8,851,884
Change in value of split-interest annuities	286,302	13	286,315
Other	2,086	-	2,086
Total Operating Revenue	<u>9,140,272</u>	<u>13</u>	<u>9,140,285</u>
Total Operating Public Support and Revenue	<u>10,482,978</u>	<u>(152,987)</u>	<u>10,329,991</u>
<b>OPERATING EXPENSES</b>			
Fundraising expenses	45,715	-	45,715
Change in Net Assets Before Non-Operating Activities	<u>10,437,263</u>	<u>(152,987)</u>	<u>10,284,276</u>
<b>NON-OPERATING ACTIVITIES</b>			
Restricted contributions	-	(517,323)	(517,323)
Restricted investment income, net of fees	-	15,167	15,167
Transfer to Bethesda	(26,188,738)	-	(26,188,738)
Total Non-Operating Activities	<u>(26,188,738)</u>	<u>(502,156)</u>	<u>(26,690,894)</u>
<b>CHANGE IN NET ASSETS</b>	(15,751,475)	(655,143)	(16,406,618)
NET ASSETS - BEGINNING OF YEAR	<u>91,002,459</u>	<u>6,431,606</u>	<u>97,434,065</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 75,250,984</u>	<u>\$ 5,776,463</u>	<u>\$ 81,027,447</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CORNERSTONE STATEMENT OF ACTIVITIES For the Year Ended August 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING PUBLIC SUPPORT</b>			
Contributions and legacies	<u>\$ 93,890</u>	<u>\$ -</u>	<u>\$ 93,890</u>
<b>OPERATING REVENUE</b>			
Investment income, net of fees	7,107	-	7,107
Other	<u>50,382</u>	<u>-</u>	<u>50,382</u>
Total Operating Revenue	<u>57,489</u>	<u>-</u>	<u>57,489</u>
Total Operating Public Support and Revenue	<u>151,379</u>	<u>-</u>	<u>151,379</u>
<b>OPERATING EXPENSES</b>			
Program expenses	46,777	-	46,777
Management and general expenses	<u>785,548</u>	<u>-</u>	<u>785,548</u>
Total Operating Expenses	<u>832,325</u>	<u>-</u>	<u>832,325</u>
Change in Net Assets Before Non-Operating Activities	(680,946)	-	(680,946)
<b>NON-OPERATING ACTIVITIES</b>			
Restricted contributions	<u>-</u>	<u>176,384</u>	<u>176,384</u>
<b>CHANGE IN NET ASSETS</b>	(680,946)	176,384	(504,562)
NET ASSETS - BEGINNING OF YEAR	<u>2,215,695</u>	<u>-</u>	<u>2,215,695</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,534,749</u>	<u>\$ 176,384</u>	<u>\$ 1,711,133</u>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES For the Year Ended August 31, 2020

	<u>Bethesda</u>	<u>Foundation</u>	<u>Cornerstone</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>PROGRAM EXPENSES</b>					
Salaries	\$ 66,206,478	\$ -	\$ 26,086	\$ -	\$ 66,232,564
Payroll taxes and benefits	14,646,366	-	2,746	-	14,649,112
Supplies	4,173,032	-	727	-	4,173,759
Repairs	1,764,722	-	-	-	1,764,722
Client professional and other services	5,529,887	-	-	-	5,529,887
Staff development	207,369	-	1,295	-	208,664
Legal, audit and other professional services	778,343	-	906	-	779,249
Other general outside services	3,451,399	-	10,868	-	3,462,267
Travel, meals, lodging and gasoline	1,015,363	-	3,408	-	1,018,771
Rent	2,793,241	-	-	-	2,793,241
Telephone and internet services	1,189,127	-	225	-	1,189,352
Electricity, natural gas, water and sewer	1,576,532	-	-	-	1,576,532
Property and liability insurance	2,078,449	-	-	-	2,078,449
Depreciation and amortization	4,088,025	-	-	-	4,088,025
Interest	145,183	-	-	-	145,183
Medicaid assessment fees	1,192,623	-	-	-	1,192,623
All other	962,465	-	516	-	962,981
<b>Total Program Expenses</b>	<b><u>\$ 111,798,604</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 46,777</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 111,845,381</u></b>
<b>MANAGEMENT AND GENERAL EXPENSES</b>					
Salaries	\$ 9,948,200	\$ -	\$ 272,528	\$ -	\$ 10,220,728
Payroll taxes and benefits	(675,012)	-	37,934	-	(637,078)
Supplies	323,736	-	305	-	324,041
Repairs	60,411	-	-	-	60,411
Client professional and other services	315	-	-	-	315
Staff development	955,684	-	2,219	-	957,903
Legal, audit and other professional services	2,096,941	-	393,148	-	2,490,089
Other general outside services	924,978	-	27,830	-	952,808
Travel, meals, lodging and gasoline	276,675	-	37,911	-	314,586
Rent	190,602	-	-	-	190,602
Telephone and internet services	173,520	-	897	-	174,417
Electricity, natural gas, water and sewer	150,563	-	-	-	150,563
Property and liability insurance	242,323	-	11,948	-	254,271
Depreciation and amortization	600,751	-	-	-	600,751
Interest	710,640	-	-	-	710,640
All other	166,125	-	828	-	166,953
<b>Total Management and General Expenses</b>	<b><u>\$ 16,146,452</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 785,548</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 16,932,000</u></b>

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES (continued) For the Year Ended August 31, 2020

	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
<b>FUNDRAISING EXPENSES</b>					
Salaries	\$ 1,707,725	\$ -	\$ -	\$ -	\$ 1,707,725
Payroll taxes and benefits	310,253	-	-	-	310,253
Supplies	134,833	-	-	-	134,833
Repairs	618	-	-	-	618
Client professional and other services	85	-	-	-	85
Staff development	12,027	-	-	-	12,027
Legal, audit and other professional services	505,987	42,359	-	-	548,346
Other general outside services	176,628	3,356	-	-	179,984
Travel, meals, lodging and gasoline	112,934	-	-	-	112,934
Telephone and internet services	14,549	-	-	-	14,549
Property and liability insurance	17,941	-	-	-	17,941
Depreciation and amortization	2,593	-	-	-	2,593
All other	25,142	-	-	-	25,142
<b>Total Fundraising Expenses</b>	<u>\$ 3,021,315</u>	<u>\$ 45,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,067,030</u>
<b>TOTAL EXPENSES</b>					
Salaries	\$ 77,862,403	\$ -	\$ 298,614	\$ -	\$ 78,161,017
Payroll taxes and benefits	14,281,607	-	40,680	-	14,322,287
Supplies	4,631,601	-	1,032	-	4,632,633
Repairs	1,825,751	-	-	-	1,825,751
Client professional and other services	5,530,287	-	-	-	5,530,287
Staff development	1,175,080	-	3,514	-	1,178,594
Legal, audit and other professional services	3,381,271	42,359	394,054	-	3,817,684
Other general outside services	4,553,005	3,356	38,698	-	4,595,059
Travel, meals, lodging and gasoline	1,404,972	-	41,319	-	1,446,291
Rent	2,983,843	-	-	-	2,983,843
Telephone and internet services	1,377,196	-	1,122	-	1,378,318
Electricity, natural gas, water and sewer	1,727,095	-	-	-	1,727,095
Property and liability insurance	2,338,713	-	11,948	-	2,350,661
Depreciation and amortization	4,691,369	-	-	-	4,691,369
Interest	855,823	-	-	-	855,823
Medicaid assessment fees	1,192,623	-	-	-	1,192,623
All other	1,153,732	-	1,344	-	1,155,076
<b>Total Expenses</b>	<u>\$ 130,966,371</u>	<u>\$ 45,715</u>	<u>\$ 832,325</u>	<u>\$ -</u>	<u>\$ 131,844,411</u>