

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

Watertown, Wisconsin

**CONSOLIDATED FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2018 and 2017

# 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, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional operating expenses for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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, 2018 and 2017, 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.

## ***Other Matters***

### ***Report on Consolidating and Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 32-40 is 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 it is not a required part of the consolidated financial statements. Also, the Bethesda Schedule of Property and Equipment is presented for purposes of additional analysis and is 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 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 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 6, 2018 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 Virchow Krause, LLP*

Milwaukee, Wisconsin  
November 6, 2018

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of August 31, 2018 and 2017

<b>ASSETS</b>		
	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,819,547	\$ 18,575,613
Accounts receivable:		
Client programs	7,401,441	8,824,069
Interest and other	1,178,057	1,282,532
Legacies	9,543,432	694,531
Supply inventories	236,759	349,681
Prepaid expenses and other current assets	1,055,795	1,042,826
Assets held for sale	4,427,358	4,227,199
Total Current Assets	<u>33,662,389</u>	<u>34,996,451</u>
<b>ASSETS WHOSE USE IS LIMITED OR RESTRICTED</b>		
Funds held on behalf of clients	2,101,052	1,612,191
Escrow deposits	1,435,578	1,265,130
Other donor restricted assets	30,611	30,601
Total Assets Whose Use is Limited or Restricted	<u>3,567,241</u>	<u>2,907,922</u>
<b>OTHER ASSETS</b>		
Investments	104,340,854	102,796,861
Assets relating to split-interest agreements and trusts	13,338,169	13,002,140
Notes receivable and other assets	42,175	42,702
Total Other Assets	<u>117,721,198</u>	<u>115,841,703</u>
<b>PROPERTY AND EQUIPMENT</b>	<u>54,985,482</u>	<u>61,030,204</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 209,936,310</b></u>	<u><b>\$ 214,776,280</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,728,095	\$ 3,723,454
Salaries, wages, related withholdings and fringe benefits	7,911,759	9,693,761
Line of credit	35,000,000	35,054,735
Current portion of mortgage notes payable - HUD	195,368	178,995
Other current liabilities	42,719	43,607
Total Current Liabilities	<u>46,877,941</u>	<u>48,694,552</u>
<b>LONG-TERM LIABILITIES</b>		
Due to beneficiaries and others under split-interest agreements and trusts	7,681,167	8,025,236
Mortgage notes payable - HUD	1,434,293	1,629,661
Pension plan liability	10,051,810	19,688,665
Funds held on behalf of clients	1,581,576	983,551
Other long-term liabilities	876,701	821,487
Total Long-Term Liabilities	<u>21,625,547</u>	<u>31,148,600</u>
Total Liabilities	<u>68,503,488</u>	<u>79,843,152</u>
<b>NET ASSETS</b>		
Unrestricted	128,582,803	122,578,912
Temporarily restricted	4,668,331	4,202,230
Permanently restricted	8,181,688	8,151,986
Total Net Assets	<u>141,432,822</u>	<u>134,933,128</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 209,936,310</b></u>	<u><b>\$ 214,776,280</b></u>

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING PUBLIC SUPPORT</b>				
Contributions and legacies	\$ 20,758,437	\$ -	\$ -	\$ 20,758,437
Net assets released from restrictions - operations	796,310	(796,310)	-	-
Total Operating Public Support	<u>21,554,747</u>	<u>(796,310)</u>	<u>-</u>	<u>20,758,437</u>
<b>OPERATING REVENUE</b>				
Program service revenue	94,392,609	-	-	94,392,609
Investment income	10,017,292	-	-	10,017,292
Retail operations income	6,385,259	-	-	6,385,259
Rental income	216,475	-	-	216,475
Gain on sale of property and equipment	3,271,493	-	-	3,271,493
Change in value of split-interest annuities	(42,119)	(1,866)	-	(43,985)
Other	791,166	-	-	791,166
Total Operating Revenue	<u>115,032,175</u>	<u>(1,866)</u>	<u>-</u>	<u>115,030,309</u>
Total Operating Public Support and Revenue	<u>136,586,922</u>	<u>(798,176)</u>	<u>-</u>	<u>135,788,746</u>
<b>OPERATING EXPENSES</b>				
Program expenses	105,415,199	-	-	105,415,199
Management and general expenses	29,347,396	-	-	29,347,396
Fundraising expenses	2,302,106	-	-	2,302,106
Total Operating Expenses	<u>137,064,701</u>	<u>-</u>	<u>-</u>	<u>137,064,701</u>
Change in Net Assets Before Non-Operating Activities	<u>(477,779)</u>	<u>(798,176)</u>	<u>-</u>	<u>(1,275,955)</u>
<b>NON-OPERATING ACTIVITIES</b>				
Net assets released from restrictions - property and equipment	10,936	(10,936)	-	-
Restricted contributions	-	1,254,205	19,599	1,273,804
Restricted investment income	-	21,008	10,103	31,111
Market adjustment for fixed income investments	(799,659)	-	-	(799,659)
Adjustment to unfunded pension plan liability	7,270,393	-	-	7,270,393
Total Non-Operating Activities	<u>6,481,670</u>	<u>1,264,277</u>	<u>29,702</u>	<u>7,775,649</u>
<b>CHANGE IN NET ASSETS</b>	<u>6,003,891</u>	<u>466,101</u>	<u>29,702</u>	<u>6,499,694</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>122,578,912</u>	<u>4,202,230</u>	<u>8,151,986</u>	<u>134,933,128</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 128,582,803</u>	<u>\$ 4,668,331</u>	<u>\$ 8,181,688</u>	<u>\$ 141,432,822</u>

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING PUBLIC SUPPORT</b>				
Contributions and legacies	\$ 10,724,510	\$ -	\$ -	\$ 10,724,510
Net assets released from restrictions - operations	3,505,029	(3,505,029)	-	-
Total Operating Public Support	14,229,539	(3,505,029)	-	10,724,510
<b>OPERATING REVENUE</b>				
Program service revenue	104,539,957	-	-	104,539,957
Investment income	6,762,659	-	-	6,762,659
Retail operations income	6,884,193	-	-	6,884,193
Rental income	342,602	-	-	342,602
Impairment and loss on sale of property and equipment	(12,261,791)	-	-	(12,261,791)
Change in value of split-interest annuities	314,822	(11,400)	-	303,422
Other	871,353	-	-	871,353
Total Operating Revenue	107,453,795	(11,400)	-	107,442,395
Total Operating Public Support and Revenue	121,683,334	(3,516,429)	-	118,166,905
<b>OPERATING EXPENSES</b>				
Program expenses	123,948,354	-	-	123,948,354
Management and general expenses	26,087,544	-	-	26,087,544
Fundraising expenses	2,020,357	-	-	2,020,357
Total Operating Expenses	152,056,255	-	-	152,056,255
Change in Net Assets Before Non-Operating Activities	(30,372,921)	(3,516,429)	-	(33,889,350)
<b>NON-OPERATING ACTIVITIES</b>				
Net assets released from restrictions - property and equipment	272,267	(272,267)	-	-
Restricted contributions	-	1,665,982	-	1,665,982
Restricted investment income	-	16,181	12,314	28,495
Market adjustment for fixed income investments	2,108,000	-	-	2,108,000
Adjustment to unfunded pension plan liability	11,905,977	-	-	11,905,977
Total Non-Operating Activities	14,286,244	1,409,896	12,314	15,708,454
<b>CHANGE IN NET ASSETS</b>	(16,086,677)	(2,106,533)	12,314	(18,180,896)
<b>NET ASSETS - BEGINNING OF YEAR</b>	138,665,589	6,308,763	8,139,672	153,114,024
<b>NET ASSETS - END OF YEAR</b>	\$ 122,578,912	\$ 4,202,230	\$ 8,151,986	\$ 134,933,128

See accompanying notes to consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended August 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 6,499,694	\$ (18,180,896)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Bad debt expense (recovery)	(251,970)	304,255
Net unrealized (gain) loss on investments	(5,164,875)	969,568
Accretion	9,930	9,930
Depreciation	5,860,220	7,011,991
Impairment and (gain) loss on sale of property and equipment	(3,271,493)	12,261,791
Net realized gain on investments	(1,733,101)	(7,588,624)
Net change in split interest agreements	(300,575)	(483,503)
Contributions restricted for endowment	(19,599)	-
Restricted investment income, net	(31,111)	(28,495)
Change in beneficial interest in assets held by others	(379,533)	(55,054)
Adjustment to unfunded pension plan liability	(7,270,393)	(11,905,977)
Changes in assets and liabilities		
Client programs receivable	1,674,598	2,211,865
Interest and other receivable	104,475	(245,705)
Legacies receivable	(8,848,901)	(568,500)
Supply inventories	112,922	100,503
Prepaid expenses and other current assets	(12,969)	10,605
Notes receivable and other assets	527	527
Funds held on behalf of clients	109,164	81,264
Accounts payable	141,575	(593,375)
Salaries, wages, related withholdings and fringe benefits	(1,782,002)	(3,500,008)
Pension plan liability	(2,366,462)	(2,512,207)
Other current liabilities	(888)	(5,118)
Other long-term liabilities	45,284	23,176
Net Cash Flows from Operating Activities	<u>(16,875,483)</u>	<u>(22,681,987)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(5,596,898)	(3,243,868)
Proceeds from sale of property and equipment	8,715,800	5,512,524
Purchase of investments	(13,173,971)	(100,950,234)
Proceeds from sale of investments	18,527,954	129,704,793
Net change in escrow deposits	(170,448)	180,533
Net Cash Flows from Investing Activities	<u>8,302,437</u>	<u>31,203,748</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from (payments on) line of credit	(54,735)	54,735
Principal payments on mortgage notes payable - HUD	(178,995)	(164,621)
Net restricted investment income	31,111	28,495
Contributions restricted for endowment	19,599	-
Net Cash Flows from Financing Activities	<u>(183,020)</u>	<u>(81,391)</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(8,756,066)</u>	<u>8,440,370</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>18,575,613</u>	<u>10,135,243</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 9,819,547</u>	<u>\$ 18,575,613</u>
<b>Supplemental cash flow disclosures:</b>		
Cash paid for interest	<u>\$ 1,090,440</u>	<u>\$ 824,305</u>
<b>Noncash investing and financing activities:</b>		
Purchases of property and equipment in accounts payable	<u>\$ 27,015</u>	<u>\$ 163,949</u>

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, 2018

	Program	Management and General	Fundraising	Total
Salaries	\$ 60,219,244	\$ 13,366,648	\$ 1,274,281	\$ 74,860,173
Payroll taxes and benefits	15,770,004	2,674,402	274,747	18,719,153
Supplies	3,965,260	820,394	112,366	4,898,020
Repairs	1,569,565	1,403,681	1,817	2,975,063
Client professional and other services	5,402,632	296,038	4,929	5,703,599
Staff development	124,280	962,792	75,796	1,162,868
Legal, audit and other professional services	98,162	2,860,047	103,175	3,061,384
Other general outside services	1,887,714	3,701,278	264,347	5,853,339
Travel, meals, lodging and gasoline	1,295,670	822,075	159,354	2,277,099
Rent	3,220,793	152,682	-	3,373,475
Telephone and internet services	920,792	441,487	10,389	1,372,668
Electricity, natural gas, water and sewer	1,730,726	305,325	-	2,036,051
Property and liability insurance	1,830,660	235,447	13,255	2,079,362
Depreciation and amortization	5,215,965	650,770	3,415	5,870,150
Interest	155,504	934,936	-	1,090,440
Medicaid assessment fees	1,337,474	-	-	1,337,474
All other	670,754	(280,606)	4,235	394,383
Total Expenses	\$ 105,415,199	\$ 29,347,396	\$ 2,302,106	\$ 137,064,701

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, 2017

	Program	Management and General	Fundraising	Total
Salaries	\$ 70,847,779	\$ 11,518,975	\$ 1,247,627	\$ 83,614,381
Payroll taxes and benefits	20,136,746	2,776,266	258,772	23,171,784
Supplies	4,908,703	736,163	86,347	5,731,213
Repairs	1,862,885	550,877	10	2,413,772
Client professional and other services	5,128,229	889,395	93,255	6,110,879
Staff development	92,434	790,199	4,970	887,603
Legal, audit, and other professional services	55,685	2,478,198	69,055	2,602,938
Other general outside services	2,018,191	2,262,395	42,005	4,322,591
Travel, meals, lodging and gasoline	1,565,155	699,575	146,642	2,411,372
Rent	3,622,652	125,506	-	3,748,158
Telephone and internet services	1,127,193	462,501	12,266	1,601,960
Electricity, natural gas, water and sewer	2,034,841	650,026	-	2,684,867
Property and liability insurance	2,018,559	244,237	18,765	2,281,561
Depreciation and amortization	6,285,825	736,096	-	7,021,921
Interest	171,132	653,173	-	824,305
Medicaid assessment fees	1,441,631	-	-	1,441,631
All other	630,714	513,962	40,643	1,185,319
Total Expenses	\$ 123,948,354	\$ 26,087,544	\$ 2,020,357	\$ 152,056,255

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, 2018 and 2017

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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") and Bethesda Lutheran Foundation, Inc. ("Foundation") (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 as recommended in the *Audit and Accounting Guide (Not-for-Profit Entities)* published by the American Institute of Certified Public Accountants as management feels it best reflects the operations of the Organization.

##### *Cash and Cash Equivalents*

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. Money market accounts whose use is restricted by annuity agreements are classified as investments.

##### *Client Programs Receivable and Allowance for Doubtful Accounts*

Accounts receivable are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date, and are stated at the invoice amount. The Organization provides an allowance for doubtful accounts for client programs receivable equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts deemed uncollectible are charged against revenue, if related to the current year, and charged to bad debt expense, if related to prior years. Client programs receivable is shown net of an allowance for doubtful accounts of \$616,223 and \$996,460 as of August 31, 2018 and 2017, respectively. For the year ending August 31, 2018 and 2017, bad debt expense (recovery) was \$(251,970) and \$304,255, respectively, and is included on the consolidated Statements of Functional Operating Expenses in All other.

##### *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, 2018 and 2017.

Legacies receivable of \$9,543,432 and \$694,531 as of August 31, 2018 and 2017, respectively, are expected to be collected in less than one year.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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##### *Supply Inventories*

Inventory, which mainly consists of thrift store items, 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 as increases or decreases in unrestricted net assets 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, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Directors.

##### *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 unrestricted net assets 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 temporarily restricted contributions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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##### *Property and Equipment (continued)*

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

The Organization has recorded a liability of \$327,684 and \$317,754 for estimated asbestos clean-up costs as of August 31, 2018 and 2017, respectively, and it is presented as other long-term liabilities in the consolidated statements of financial position.

In recent years the Organization has reviewed and modified operation methods to better serve clients. As a result of these decisions, the Organization completed a plan to abandon and demolish several buildings. As a result, a loss of approximately \$12,400,000 during the year ended August 31, 2017 is presented in the impairment and loss on sale of property and equipment on the consolidated statement of activities. During 2018, the Organization demolished the buildings. The Organization is in the process of assessing its options for future use of the land.

##### *Assets Held for Sale*

During 2017, the Organization closed certain programs and was marketing the buildings for sale. During 2018, the Organization sold buildings previously recorded as held for sale and closed certain programs and is marketing other buildings for sale. Management expects these properties to be sold within one year and the properties 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.

##### *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 an impairment loss of \$0 and \$1,222,438 during the years ending August 31, 2018 and 2017, 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.

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% to 6% were used to project the Due to beneficiaries and others under split interest agreements and trusts liability as of August 31, 2018 and 2017. Revenue is recorded for the difference between the fair value of the assets received and the liability.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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##### *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:

**Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

##### *Tax-Exempt Status*

The Organization has 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.

##### *Contributions*

Contributions, including pledges receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The gifts are reported as either temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and 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 unrestricted income.

##### *Program Service Revenue*

The Organization has agreements with third-party payors that provide for payments to the Organization. Payment arrangements include reimbursement of costs, discounted charges, and per diem payments. Program service revenue is recorded in the period in which services are provided and is 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 are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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##### *Operations*

Operating results in the consolidated statements of activities reflect all transactions increasing or decreasing net assets except those items of a long-term nature, that is, those associated with:

- Net assets released from restrictions - property and equipment
- Restricted contributions
- Restricted investment income
- Market adjustment for fixed income investments
- Adjustment to unfunded pension plan liability

##### *Expense Allocation*

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### *Reclassification*

For comparability, certain 2017 amounts have been reclassified to conform with classifications adopted in 2018. 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.

##### *New Accounting Pronouncements*

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities" ("ASU 2016-14"). ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (2019), with early adoption permitted. Management is currently evaluating the impact of ASU 2016-14 on the Organization's consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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#### *New Accounting Pronouncements (continued)*

FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 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. Amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. ASU 2014-09 (as amended) is effective for fiscal years beginning after December 15, 2018 (2020). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently evaluating the impact of ASU 2014-09 (as amended) on the Organization's consolidated financial statements.

FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" ("ASU 2018-08"). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should 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. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018 (2020) and contributions made during fiscal years beginning after December 15, 2019 (2021). The Organization is currently assessing the impact that ASU 2018-08 will have on its consolidated financial statements.

FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02") 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. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently evaluating the impact of ASU 2016-02 on the Organization's consolidated financial statements.

FASB issued Accounting Standards Update 2017-07, "Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). 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 will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). Early adoption is permitted and the standard should be applied retrospectively. Management is currently evaluating the impact of ASU 2017-07 on the Organization's consolidated financial statements.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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

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#### *New Accounting Pronouncements (continued)*

FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash 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 update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently evaluating the impact of ASU 2016-18 on the Organization's consolidated financial statements.

#### *Subsequent Events*

The Organization has evaluated subsequent events through November 6, 2018, which is the date that the consolidated financial statements were approved and available to be issued.

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### NOTE 2 - 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, 2018 and 2017

### NOTE 2 - 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, 2018			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds	\$ 68,444,564	\$ 68,444,564	\$ -	\$ -
Common and preferred stock	9,496,984	9,496,984	-	-
Church extension funds	4,720	-	4,720	-
Fixed income securities	17,128,720	17,128,720	-	-
Hedge funds	502,172	-	-	502,172
Mutual funds - charitable gift annuities	7,031,768	7,031,768	-	-
Fixed income securities - charitable gift annuities	127,743	127,743	-	-
457 plan investments - mutual funds	548,981	548,981	-	-
Money market funds - charitable gift annuities	1,055,202	-	1,055,202	-
Total	<u>\$104,340,854</u>	<u>\$102,778,760</u>	<u>\$ 1,059,922</u>	<u>\$ 502,172</u>
Assets relating to split- interest agreements and trusts				
Fixed income mutual funds	\$ 3,813,229	\$ 3,813,229	\$ -	\$ -
Money market funds	318,727	-	318,727	-
Equity mutual funds	4,916,786	4,916,786	-	-
Beneficial interest in assets held by others	4,289,427	-	-	4,289,427
Total	<u>\$ 13,338,169</u>	<u>\$ 8,730,015</u>	<u>\$ 318,727</u>	<u>\$ 4,289,427</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 2 - Fair Value Measurements (continued)

	August 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds	\$ 65,405,223	\$ 65,405,223	\$ -	\$ -
Common and preferred stock	10,210,338	10,210,338	-	-
Church extension funds	764,970	-	764,970	-
Fixed income securities	17,625,564	17,625,564	-	-
Hedge funds	734,223	-	-	734,223
Mutual funds - charitable gift annuities	7,005,526	7,005,526	-	-
457 plan investments - mutual funds	503,733	503,733	-	-
Money market funds - charitable gift annuities	547,284	-	547,284	-
Total	<u>\$102,796,861</u>	<u>\$100,750,384</u>	<u>\$ 1,312,254</u>	<u>\$ 734,223</u>
Assets relating to split- interest agreements and trusts				
Fixed income mutual funds	\$ 1,831,406	\$ 1,831,406	\$ -	\$ -
Money market funds	188,000	-	188,000	-
Equity mutual funds	7,072,830	7,072,830	-	-
Beneficial interest in assets held by others	3,909,904	-	-	3,909,904
Total	<u>\$ 13,002,140</u>	<u>\$ 8,904,236</u>	<u>\$ 188,000</u>	<u>\$ 3,909,904</u>

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 and money market 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.

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.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 2 - Fair Value Measurements (continued)

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

	<u>Hedge Funds</u>	<u>Beneficial Interest in Assets Held by Others</u>
Balance, August 31, 2016	\$ 14,741,965	\$ 3,854,850
Net realized and unrealized gains included in change in net assets	284,599	55,054
Sales	(14,292,341)	-
Balance, August 31, 2017	734,223	3,909,904
Net realized and unrealized gains included in change in net assets	10,522	379,523
Sales	(242,573)	-
Balance, August 31, 2018	<u>\$ 502,172</u>	<u>\$ 4,289,427</u>
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2018	<u>\$ (10,584)</u>	<u>\$ 379,523</u>
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2017	<u>\$ 1,235,109</u>	<u>\$ 55,054</u>

Unrealized net gains (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 two funds at August 31, 2018 and four funds at August 31, 2017. The funds are valued at their net asset value and are deemed alternative investments. To withdraw funds from these investments, the Organization is required to submit a written request and is limited to one request per quarter. The investment companies can deny the request to withdraw funds. The Organization has no unfunded commitments relating to these investments. The Organization has taken steps to liquidate all level 3 hedge funds 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 allocate 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, 2018 and 2017

### NOTE 2 - Fair Value Measurements (continued)

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, 2017.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets held for sale	\$ 992,598	\$ -	\$ 992,598	\$ -

There were no similar transactions during the year ending August 31, 2018.

### NOTE 3 - Escrow Deposits

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.

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 the capital advance, the balance in this fund reverts to the benefit of HUD.

### NOTE 4 - Investments

Following is a summary of investments as of August 31:

	<u>2018</u>	<u>2017</u>
Common and preferred stocks	\$ 9,496,984	\$ 10,210,338
Fixed income securities	17,128,720	17,625,564
Mutual funds	68,444,564	65,405,223
Mutual funds - charitable gift annuities	7,031,768	7,005,526
Fixed income securities - charitable gift annuities	127,743	-
Church extension funds	4,720	764,970
Hedge funds	502,172	734,223
457 plan investments - mutual funds	548,981	503,733
Money market funds - charitable gift annuities	1,055,202	547,284
Total	<u>\$ 104,340,854</u>	<u>\$ 102,796,861</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2018 and 2017

### NOTE 4 - Investments (continued)

Operating and non-operating income from investment securities is summarized as follows for the years ended August 31:

	2018	2017
Interest and dividends	\$ 2,826,748	\$ 2,726,603
Net realized gains	1,733,101	7,588,624
Net unrealized gains (losses)	5,164,875	(969,568)
Less: fees	(475,980)	(446,505)
Total	<u>\$ 9,248,744</u>	<u>\$ 8,899,154</u>

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.

### NOTE 5 - Property and Equipment

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

	Depreciable Lives	2018	2017
Land and land improvements	5-40 yrs.	\$ 15,894,272	\$ 16,989,179
Buildings, improvements and capitalized maintenance	5-40 yrs.	75,429,711	81,596,051
Fixed and moveable equipment	3-20 yrs.	27,112,534	29,490,911
Construction in progress	N/A	<u>3,240,640</u>	<u>672,223</u>
Total Property and Equipment		121,677,157	128,748,364
Less: Accumulated depreciation		<u>(66,691,675)</u>	<u>(67,718,160)</u>
Net Property and Equipment		<u>\$ 54,985,482</u>	<u>\$ 61,030,204</u>

### NOTE 6 - Retirement Plans

#### 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, 2018 and 2017 was \$993,625 and \$1,080,695, respectively.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 6 - Retirement Plans (continued)

#### 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 by the Employee Retirement Income Security Act of 1974 ("ERISA") funding standards. 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.

Change in Projected Benefit Obligation	2018	2017
Projected Benefit Obligation at beginning of year	\$ 88,370,869	\$ 99,353,816
Service cost	372,962	394,225
Interest cost	3,265,276	3,377,008
Actuarial gain	(5,090,005)	(8,576,956)
Benefits paid and administrative costs	(6,612,311)	(6,177,224)
Projected Benefit Obligation at end of year	<u>\$ 80,306,791</u>	<u>\$ 88,370,869</u>
Change in plan assets	2018	2017
Fair value of plan assets at beginning of year	\$ 65,882,204	\$ 62,446,967
Employer contribution	2,800,000	2,800,000
Actual return on plan assets	6,185,088	6,812,461
Benefits paid and administrative costs	(6,612,311)	(6,177,224)
Fair value of plan assets at end of year	<u>\$ 68,254,981</u>	<u>\$ 65,882,204</u>
Funded status of the plan	<u>\$ (12,051,810)</u>	<u>\$ (22,488,665)</u>

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

	2018	2017
Accrued benefit cost - included in salaries, wages, related withholdings and fringe benefits	\$ (2,000,000)	\$ (2,800,000)
Pension plan liability	(10,051,810)	(19,688,665)
Total	<u>\$ (12,051,810)</u>	<u>\$ (22,488,665)</u>

Components of the operating portion of pension expense consist of the following for the years ended August 31:

	2018	2017
Service cost	\$ 372,962	\$ 394,225
Interest cost	3,265,276	3,377,008
Expected return on plan assets	(4,627,473)	(4,387,451)
Amortization of net loss	622,772	904,011
Operating portion of pension expense	<u>\$ (366,463)</u>	<u>\$ 287,793</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 6 - Retirement Plans (continued)

#### Defined Benefit Plan (continued)

Components of the non-operating portion of retirement plan expense (reported as adjustment to unfunded pension plan liability in the consolidated statements of activities) consist of the following for the years ended August 31:

	2018	2017
Unrecognized net gain	\$ 7,270,393	\$ 11,905,977

Amounts to be included in future years net periodic pension costs:

	2018	2017
Unrecognized net loss	\$ (21,495,402)	\$ (28,765,794)

The accumulated benefit obligation for this defined benefit retirement plan was \$80,306,791 and \$88,370,869 at August 31, 2018 and 2017, respectively. Since benefit accruals were frozen during 2013, the projected benefit obligation is equal to the accumulated benefit obligation at August 31, 2018 and 2017.

Expected components of subsequent year's net periodic post retirement benefit cost

	2019	2018
Service cost	\$ 445,092	\$ 372,962
Interest cost	3,182,666	3,265,276
Expected return on assets	(4,532,380)	(4,627,473)
Amortization of net loss from earlier periods	442,482	622,772
Total net periodic postretirement benefit	\$ (462,140)	\$ (366,463)

The actuarial assumptions used to develop the net periodic pension cost were as follows:

	2018	2017
Weighted average discount rate	3.77%	3.46%
Increase in future compensation levels	n/a	n/a
Expected long-term rate of return on assets	6.75%	7.0%

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

	2018	2017
Weighted average discount rate	4.07%	3.77%
Increase in future compensation levels	n/a	n/a

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 6 - Retirement Plans (continued)

#### Defined Benefit Plan (continued)

The following benefit payments are expected to be paid:

2019	\$ 3,781,009
2020	3,919,817
2021	4,062,115
2022	4,083,484
2023	4,112,317
2024-2028	<u>21,696,730</u>
Total	<u>\$ 41,655,472</u>

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, 2019. 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 an estimated \$2.0 million contribution to the plan in the next fiscal year.

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, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 44,080,304	\$ 44,080,304	\$ -	\$ -
Fixed income	19,190,654	19,190,654	-	-
Money market funds	4,759,515	-	4,759,515	-
Hedge funds	<u>224,508</u>	<u>-</u>	<u>-</u>	<u>224,508</u>
Total assets	<u>\$ 68,254,981</u>	<u>\$ 63,270,958</u>	<u>\$ 4,759,515</u>	<u>\$ 224,508</u>
	August 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 41,753,270	\$ 41,753,270	\$ -	\$ -
Fixed income	11,411,164	11,411,164	-	-
Money market funds	4,901,980	-	4,901,980	-
Hedge funds	328,668	-	-	328,668
Mutual funds	<u>7,487,122</u>	<u>7,487,122</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 65,882,204</u>	<u>\$ 60,651,556</u>	<u>\$ 4,901,980</u>	<u>\$ 328,668</u>

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 footnote 2.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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#### NOTE 6 - Retirement Plans (continued)

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

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

	<u>Hedge Funds</u>
Balance, August 31, 2016	\$ 8,297,560
Net gains (realized and unrealized)	232,567
Purchases	9,067
Sales	<u>(8,210,526)</u>
Balance, August 31, 2017	328,668
Net gains (realized and unrealized)	5,214
Sales	<u>(109,374)</u>
Balance, August 31, 2018	<u>\$ 224,508</u>

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.

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#### NOTE 7 - 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 provide 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 Fund and the Bethesda Lutheran Home Balanced Growth Pooled Income Fund ("Funds") act 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.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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#### NOTE 7 - Assets Held Relating to Split-Interest Agreements and Trusts (continued)

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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 8 - Line of Credit

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During fiscal year 2017, the Organization closed its line of credit with Royal Bank of Canada and opened a \$45,000,000 line of credit with Bank of America with a variable interest rate of LIBOR plus 0.95% (at August 31, 2018 and 2017 the interest rate was 3.02% and 2.18%, 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 \$35,000,000 and \$35,054,735 at August 31, 2018 and 2017, respectively. Interest expense on the line of credit was \$934,936 and \$653,173 for the years ended August 31, 2018 and 2017, respectively.

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#### NOTE 9 - Mortgage Notes Payable - HUD

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Mortgage notes payable - HUD consist of the following at August 31:

	2018	2017
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	\$ 202,065	\$ 233,765
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.	150,603	157,290
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.	2,836	4,266
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	468,890	573,823
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	348,300	362,095
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	364,245	379,611

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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#### NOTE 9 - Mortgage Notes Payable - HUD (continued)

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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	\$ 92,722	\$ 97,806
Totals	1,629,661	1,808,656
Less: Current portion	(195,368)	(178,995)
Long-Term Portion	<u>\$ 1,434,293</u>	<u>\$ 1,629,661</u>

Interest expense on mortgage notes payable - HUD was \$155,504 and \$171,132 for the years ended August 31, 2018 and 2017, respectively.

Principal requirements on mortgage notes payable for years ending after August 31, 2018 are as follows:

2019	\$ 195,368
2020	213,722
2021	233,556
2022	192,380
2023	103,804
Thereafter	<u>690,831</u>
Total	<u>\$ 1,629,661</u>

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#### NOTE 10 - Self-Insurance

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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 \$200,000 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 \$922,156 and \$1,028,843 as of August 31, 2018 and 2017, 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, 2018 and 2017

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#### NOTE 11 - Net Assets

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Unrestricted net assets at year end are composed of:

	2018	2017
Unrestricted reserves	\$ 128,582,803	\$ 122,578,912

Temporarily restricted net assets at year end are composed of:

	2018	2017
Time restricted	\$ 14,880	\$ 16,746
Purpose restricted	2,135,852	2,047,408
Irrevocable trust held by a third party	253,482	253,482
Held by Lutheran Church Extension Fund - Missouri Synod	2,264,117	1,884,594
Totals	\$ 4,668,331	\$ 4,202,230

Permanently restricted net assets at year end are composed of:

	2018	2017
Restricted for endowment	\$ 6,409,860	\$ 6,380,158
Held by Good Shepherd Fund	1,771,828	1,771,828
Totals	\$ 8,181,688	\$ 8,151,986

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#### NOTE 12 - Endowment

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The Organization follows current authoritative guidance, which provides guidance on classifying net assets associated with donor-restricted 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 portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

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 permanently restricted net assets (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.

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 12 - Endowment (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 137,894	\$ 6,409,860	\$ 6,547,754

  

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 129,679	\$ 6,380,158	\$ 6,509,837

Changes in endowment net assets for the year ended August 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 129,679	\$ 6,380,158	\$ 6,509,837
Investment income	-	593,421	10,103	603,524
Contributions	-	-	19,599	19,599
Amounts appropriated for expenditure	-	(585,206)	-	(585,206)
Endowment net assets, end of year	\$ -	\$ 137,894	\$ 6,409,860	\$ 6,547,754

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

### NOTE 12 - Endowment (continued)

Changes in endowment net assets for the year ended August 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,201,557	\$ 6,367,844	\$ 7,569,401
Investment income	-	564,270	12,314	576,584
Amounts appropriated for expenditure	-	(1,636,148)	-	(1,636,148)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 129,679</u>	<u>\$ 6,380,158</u>	<u>\$ 6,509,837</u>

**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 that are reported in unrestricted net assets as of August 31, 2018 and 2017. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted 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 unrestricted net assets.

**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 and are reported as temporarily restricted net assets. The Organization has elected to reflect the investment earnings that are appropriated for expenditure within the same year as unrestricted investment income in the consolidated statements of activities.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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#### NOTE 13 - Operating Leases

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

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

2019	\$ 2,092,236
2020	1,218,388
2021	752,280
2022	527,384
2023	313,835
Thereafter	<u>93,002</u>
Total	<u>\$ 4,997,125</u>

Rent expense on these operating leases was \$3,054,578 and \$3,234,359 for the years ended August 31, 2018 and 2017, respectively.

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#### NOTE 14 - 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 \$9,048,742 and \$9,092,236 as of August 31, 2018 and 2017, respectively. The amount due to beneficiaries as of August 31, 2018 and 2017 were \$3,898,418 and \$3,981,944, 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 \$8,214,713 and \$7,552,810 as of August 31, 2018 and 2017, respectively. The amount due to beneficiaries relating to gift annuities was \$3,762,749 and \$4,002,512 as of August 31, 2018 and 2017, 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 unrestricted net assets.

## BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2018 and 2017

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#### NOTE 15 - 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 unrestricted net assets on the accompanying consolidated statements of financial position.

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#### NOTE 16 - Litigation

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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.

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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.

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#### NOTE 18 - 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, 2018 and 2017 was from governmental third-party payors.

The Organization receives Medicaid funding from programs in various states. Medicaid reimbursement methodology varies from state to state. Approximately 27% and 25% of program service revenue were generated from services to Medicaid beneficiaries in 2018 and 2017, respectively. The Organization has receivables of \$2,973,588 and \$3,309,588 due from Medicaid at August 31, 2018 and 2017, respectively. Additionally, approximately 41% and 43% of program service revenue were generated from Medicaid Waiver Funding in 2018 and 2017, respectively. The Organization has receivables of \$2,816,409 and \$3,372,418 due from Medicaid Waiver Funding at August 31, 2018 and 2017, respectively.

## **SUPPLEMENTAL INFORMATION**

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2018

### ASSETS

	Bethesda	Foundation	Eliminations	Consolidated
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 6,400,911	\$ 3,418,636	\$ -	\$ 9,819,547
Accounts receivable:				
Client programs	7,401,441	-	-	7,401,441
Interest and other	753,338	424,719	-	1,178,057
Legacies	353,037	9,190,395	-	9,543,432
Intercompany	2,901,380	-	(2,901,380)	-
Supply inventories	236,759	-	-	236,759
Prepaid expenses and other current assets	1,055,795	-	-	1,055,795
Assets held for sale	4,427,358	-	-	4,427,358
Total Current Assets	<u>23,530,019</u>	<u>13,033,750</u>	<u>(2,901,380)</u>	<u>33,662,389</u>
<b>ASSETS WHOSE USE IS LIMITED OR RESTRICTED</b>				
Equity in net assets of Foundation	116,714,945	-	(116,714,945)	-
Funds held on behalf of clients	2,101,052	-	-	2,101,052
Escrow deposits	1,435,578	-	-	1,435,578
Other donor restricted assets	30,611	-	-	30,611
Total Assets Whose Use is Limited or Restricted	<u>120,282,186</u>	<u>-</u>	<u>(116,714,945)</u>	<u>3,567,241</u>
<b>OTHER ASSETS</b>				
Investments	3,768,077	100,572,777	-	104,340,854
Assets relating to split-interest agreements and trusts	4,299,766	9,038,403	-	13,338,169
Notes receivable and other assets	42,175	-	-	42,175
Total Other Assets	<u>8,110,018</u>	<u>109,611,180</u>	<u>-</u>	<u>117,721,198</u>
<b>PROPERTY AND EQUIPMENT</b>				
	54,985,482	-	-	54,985,482
<b>TOTAL ASSETS</b>	<u>\$ 206,907,705</u>	<u>\$ 122,644,930</u>	<u>\$ (119,616,325)</u>	<u>\$ 209,936,310</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)

As of August 31, 2018

### LIABILITIES AND NET ASSETS

	Bethesda	Foundation	Eliminations	Consolidated
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 3,725,997	\$ 2,098	\$ -	\$ 3,728,095
Intercompany accounts payable	2,901,380	-	(2,901,380)	-
Salaries, wages, related withholdings and fringe benefits	7,911,759	-	-	7,911,759
Line of credit	35,000,000	-	-	35,000,000
Current portion of mortgage notes payable - HUD	195,368	-	-	195,368
Other current liabilities	42,719	-	-	42,719
Total Current Liabilities	<u>49,777,223</u>	<u>2,098</u>	<u>(2,901,380)</u>	<u>46,877,941</u>
<b>LONG-TERM LIABILITIES</b>				
Due to beneficiaries and others under split-interest agreements and trusts	1,753,280	5,927,887	-	7,681,167
Mortgage notes payable - HUD	1,434,293	-	-	1,434,293
Pension plan liability	10,051,810	-	-	10,051,810
Funds held on behalf of clients	1,581,576	-	-	1,581,576
Other long-term liabilities	876,701	-	-	876,701
Total Long-Term Liabilities	<u>15,697,660</u>	<u>5,927,887</u>	<u>-</u>	<u>21,625,547</u>
Total Liabilities	<u>65,474,883</u>	<u>5,929,985</u>	<u>(2,901,380)</u>	<u>68,503,488</u>
<b>NET ASSETS</b>				
Unrestricted	128,582,803	110,290,206	(110,290,206)	128,582,803
Temporarily restricted	4,668,331	14,880	(14,880)	4,668,331
Permanently restricted	8,181,688	6,409,859	(6,409,859)	8,181,688
Total Net Assets	<u>141,432,822</u>	<u>116,714,945</u>	<u>(116,714,945)</u>	<u>141,432,822</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 206,907,705</u>	<u>\$ 122,644,930</u>	<u>\$ (119,616,325)</u>	<u>\$ 209,936,310</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2018

	Unrestricted			
	Bethesda	Foundation	Eliminations	Consolidated
<b>OPERATING PUBLIC SUPPORT</b>				
Contributions and legacies	\$ 10,281,029	\$ 10,477,408	\$ -	\$ 20,758,437
Net assets released from restrictions - operations	796,310	-	-	796,310
Total Operating Public Support	11,077,339	10,477,408	-	21,554,747
<b>OPERATING REVENUE</b>				
Program service revenue	94,392,609	-	-	94,392,609
Investment income	366,979	9,650,313	-	10,017,292
Retail operations income	6,385,259	-	-	6,385,259
Rental income	216,475	-	-	216,475
Gain on sale of property and equipment	3,271,493	-	-	3,271,493
Change in value of split-interest annuities	(95,123)	53,004	-	(42,119)
Change in net equity of Foundation	3,657,598	-	(3,657,598)	-
Other	758,952	32,214	-	791,166
Total Operating Revenue	108,954,242	9,735,531	(3,657,598)	115,032,175
Total Operating Public Support and Revenue	120,031,581	20,212,939	(3,657,598)	136,586,922
<b>OPERATING EXPENSES</b>				
Program expenses	105,415,199	-	-	105,415,199
Management and general expenses	29,347,396	-	-	29,347,396
Fundraising expenses	2,237,028	65,078	-	2,302,106
Total Operating Expenses	136,999,623	65,078	-	137,064,701
Change in Net Assets Before Non-Operating Activities	(16,968,042)	20,147,861	(3,657,598)	(477,779)
<b>NON-OPERATING ACTIVITIES</b>				
Net assets released from restrictions - property and equipment	10,936	-	-	10,936
Market adjustment for fixed income investments	(99,396)	(700,263)	-	(799,659)
Adjustment to unfunded pension plan liability	7,270,393	-	-	7,270,393
Transfer from Foundation (to Bethesda)	15,790,000	(15,790,000)	-	-
Total Non-Operating Activities	22,971,933	(16,490,263)	-	6,481,670
<b>CHANGE IN NET ASSETS</b>	6,003,891	3,657,598	(3,657,598)	6,003,891
<b>NET ASSETS - BEGINNING OF YEAR</b>	122,578,912	106,632,608	(106,632,608)	122,578,912
<b>NET ASSETS - END OF YEAR</b>	\$ 128,582,803	\$ 110,290,206	\$ (110,290,206)	\$ 128,582,803

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF ACTIVITIES (continued) For the Year Ended August 31, 2018

	Temporarily Restricted			Permanently Restricted		
	Bethesda	Foundation	Eliminations	Consolidated	Bethesda	Foundation
					Eliminations	Consolidated
<b>OPERATING PUBLIC SUPPORT</b>						
Net assets released from restrictions - operations	\$ (796,310)	\$ -	\$ -	\$ (796,310)	\$ -	\$ -
<b>OPERATING REVENUE</b>						
Change in value of split-interest annuities	-	(1,866)	-	(1,866)	-	-
Change in net equity of Foundation	(1,866)	-	1,866	-	29,702	(29,702)
Total Operating Revenue	(1,866)	(1,866)	1,866	(1,866)	29,702	(29,702)
Total Operating Public Support and Revenue	(798,176)	(1,866)	1,866	(798,176)	29,702	(29,702)
<b>NON-OPERATING ACTIVITIES</b>						
Net assets released from restrictions - property and equipment	(10,936)	-	-	(10,936)	-	-
Restricted contributions	1,254,205	-	-	1,254,205	-	19,599
Restricted investment income	21,008	-	-	21,008	-	10,103
Total Non-Operating Activities	1,264,277	-	-	1,264,277	-	29,702
<b>CHANGE IN NET ASSETS</b>						
NET ASSETS - BEGINNING OF YEAR	466,101	(1,866)	1,866	466,101	29,702	29,702
<b>NET ASSETS - END OF YEAR</b>	<u>4,202,230</u>	<u>16,746</u>	<u>(16,746)</u>	<u>4,202,230</u>	<u>8,151,986</u>	<u>8,151,986</u>
	\$ 4,668,331	\$ 14,880	\$ (14,880)	\$ 4,668,331	\$ 8,181,688	\$ 8,181,688

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## BETHESDA STATEMENT OF ACTIVITIES For the Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING PUBLIC SUPPORT</b>				
Contributions and legacies	\$ 10,281,029	\$ -	\$ -	\$ 10,281,029
Net assets released from restrictions - operations	796,310	(796,310)	-	-
Total Operating Public Support	<u>11,077,339</u>	<u>(796,310)</u>	<u>-</u>	<u>10,281,029</u>
<b>OPERATING REVENUE</b>				
Program service revenue	94,392,609	-	-	94,392,609
Investment income	366,979	-	-	366,979
Retail operations income	6,385,259	-	-	6,385,259
Rental income	216,475	-	-	216,475
Gain on sale of property and equipment	3,271,493	-	-	3,271,493
Change in value of split-interest annuities	(95,123)	-	-	(95,123)
Change in net equity of Foundation	3,657,598	(1,866)	29,702	3,685,434
Other	758,952	-	-	758,952
Total Operating Revenue	<u>108,954,242</u>	<u>(1,866)</u>	<u>29,702</u>	<u>108,982,078</u>
Total Operating Public Support and Revenue	<u>120,031,581</u>	<u>(798,176)</u>	<u>29,702</u>	<u>119,263,107</u>
<b>OPERATING EXPENSES</b>				
Program expenses	105,415,199	-	-	105,415,199
Management and general expenses	29,347,396	-	-	29,347,396
Fundraising expenses	2,237,028	-	-	2,237,028
Total Operating Expenses	<u>136,999,623</u>	<u>-</u>	<u>-</u>	<u>136,999,623</u>
Change in Net Assets Before Non-Operating Activities	<u>(16,968,042)</u>	<u>(798,176)</u>	<u>29,702</u>	<u>(17,736,516)</u>
<b>NON-OPERATING ACTIVITIES</b>				
Net assets released from restrictions - property and equipment	10,936	(10,936)	-	-
Restricted contributions	-	1,254,205	-	1,254,205
Restricted investment income	-	21,008	-	21,008
Market adjustment for fixed income investments	(99,396)	-	-	(99,396)
Adjustment to unfunded pension plan liability	7,270,393	-	-	7,270,393
Transfer from Foundation	15,790,000	-	-	15,790,000
Total Non-Operating Activities	<u>22,971,933</u>	<u>1,264,277</u>	<u>-</u>	<u>24,236,210</u>
<b>CHANGE IN NET ASSETS</b>	6,003,891	466,101	29,702	6,499,694
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>122,578,912</u>	<u>4,202,230</u>	<u>8,151,986</u>	<u>134,933,128</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 128,582,803</u>	<u>\$ 4,668,331</u>	<u>\$ 8,181,688</u>	<u>\$ 141,432,822</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## FOUNDATION STATEMENT OF ACTIVITIES For the Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING PUBLIC SUPPORT</b>				
Contributions and legacies	\$ 10,477,408	\$ -	\$ -	\$ 10,477,408
<b>OPERATING REVENUE</b>				
Investment income	9,650,313	-	-	9,650,313
Change in value of split-interest annuities	53,004	(1,866)	-	51,138
Other	32,214	-	-	32,214
Total Operating Revenue	9,735,531	(1,866)	-	9,733,665
Total Operating Public Support and Revenue	20,212,939	(1,866)	-	20,211,073
<b>OPERATING EXPENSES</b>				
Fundraising expenses	65,078	-	-	65,078
Change in Net Assets Before Non-Operating Activities	20,147,861	(1,866)	-	20,145,995
<b>NON-OPERATING ACTIVITIES</b>				
Restricted contributions	-	-	19,599	19,599
Restricted investment income	-	-	10,103	10,103
Market adjustment for fixed income investments	(700,263)	-	-	(700,263)
Transfer to Bethesda	(15,790,000)	-	-	(15,790,000)
Total Non-Operating Activities	(16,490,263)	-	29,702	(16,460,561)
<b>CHANGE IN NET ASSETS</b>	3,657,598	(1,866)	29,702	3,685,434
<b>NET ASSETS - BEGINNING OF YEAR</b>	106,632,608	16,746	6,380,157	113,029,511
<b>NET ASSETS - END OF YEAR</b>	\$ 110,290,206	\$ 14,880	\$ 6,409,859	\$ 116,714,945

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES

For the Year Ended August 31, 2018

	Bethesda	Foundation	Eliminations	Consolidated
<b>PROGRAM EXPENSES</b>				
Salaries	\$ 60,219,244	\$ -	\$ -	\$ 60,219,244
Payroll taxes and benefits	15,770,004	-	-	15,770,004
Supplies	3,965,260	-	-	3,965,260
Repairs	1,569,565	-	-	1,569,565
Client professional and other services	5,402,632	-	-	5,402,632
Staff development	124,280	-	-	124,280
Legal, audit and other professional services	98,162	-	-	98,162
Other general outside services	1,887,714	-	-	1,887,714
Travel, meals, lodging and gasoline	1,295,670	-	-	1,295,670
Rent	3,220,793	-	-	3,220,793
Telephone and internet services	920,792	-	-	920,792
Electricity, natural gas, water and sewer	1,730,726	-	-	1,730,726
Property and liability insurance	1,830,660	-	-	1,830,660
Depreciation and amortization	5,215,965	-	-	5,215,965
Interest	155,504	-	-	155,504
Medicaid assessment fees	1,337,474	-	-	1,337,474
All other	670,754	-	-	670,754
<b>Total Program Expenses</b>	<b>\$ 105,415,199</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 105,415,199</b>
<b>MANAGEMENT AND GENERAL EXPENSES</b>				
Salaries	\$ 13,366,648	\$ -	\$ -	\$ 13,366,648
Payroll taxes and benefits	2,674,402	-	-	2,674,402
Supplies	820,394	-	-	820,394
Repairs	1,403,681	-	-	1,403,681
Client professional and other services	296,038	-	-	296,038
Staff development	962,792	-	-	962,792
Legal, audit and other professional services	2,860,047	-	-	2,860,047
Other general outside services	3,701,278	-	-	3,701,278
Travel, meals, lodging and gasoline	822,075	-	-	822,075
Rent	152,682	-	-	152,682
Telephone and internet services	441,487	-	-	441,487
Electricity, natural gas, water and sewer	305,325	-	-	305,325
Property and liability insurance	235,447	-	-	235,447
Depreciation and amortization	650,770	-	-	650,770
Interest	934,936	-	-	934,936
All other	(280,606)	-	-	(280,606)
<b>Total Management and General Expenses</b>	<b>\$ 29,347,396</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,347,396</b>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES (continued) For the Year Ended August 31, 2018

	Bethesda	Foundation	Eliminations	Consolidated
<b>FUNDRAISING EXPENSES</b>				
Salaries	\$ 1,274,281	\$ -	\$ -	\$ 1,274,281
Payroll taxes and benefits	274,747	-	-	274,747
Supplies	112,366	-	-	112,366
Repairs	1,817	-	-	1,817
Client professional and other services	4,929	-	-	4,929
Staff development	75,796	-	-	75,796
Legal, audit and other professional services	43,679	59,496	-	103,175
Other general outside services	258,765	5,582	-	264,347
Travel, meals, lodging and gasoline	159,354	-	-	159,354
Telephone and internet services	10,389	-	-	10,389
Property and liability insurance	13,255	-	-	13,255
Depreciation and amortization	3,415	-	-	3,415
All other	4,235	-	-	4,235
<b>Total Fundraising Expenses</b>	<u>\$ 2,237,028</u>	<u>\$ 65,078</u>	<u>\$ -</u>	<u>\$ 2,302,106</u>
<b>TOTAL EXPENSES</b>				
Salaries	\$ 74,860,173	\$ -	\$ -	\$ 74,860,173
Payroll taxes and benefits	18,719,153	-	-	18,719,153
Supplies	4,898,020	-	-	4,898,020
Repairs	2,975,063	-	-	2,975,063
Client professional and other services	5,703,599	-	-	5,703,599
Staff development	1,162,868	-	-	1,162,868
Legal, audit and other professional services	3,001,888	59,496	-	3,061,384
Other general outside services	5,847,757	5,582	-	5,853,339
Travel, meals, lodging and gasoline	2,277,099	-	-	2,277,099
Rent	3,373,475	-	-	3,373,475
Telephone and internet services	1,372,668	-	-	1,372,668
Electricity, natural gas, water and sewer	2,036,051	-	-	2,036,051
Property and liability insurance	2,079,362	-	-	2,079,362
Depreciation and amortization	5,870,150	-	-	5,870,150
Interest	1,090,440	-	-	1,090,440
Medicaid assessment fees	1,337,474	-	-	1,337,474
All other	394,383	-	-	394,383
<b>Total Expenses</b>	<u>\$ 136,999,623</u>	<u>\$ 65,078</u>	<u>\$ -</u>	<u>\$ 137,064,701</u>

# BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

## BETHESDA

### SCHEDULE OF PROPERTY AND EQUIPMENT

For the Year Ended August 31, 2018

	Cost			Accumulated Depreciation				Net Carrying Amount	
	Balances August 31, 2017	Additions	Transfers and Disposals	Balances August 31, 2018	Balances August 31, 2017	Current Expense	Transfers and Disposals	Balances August 31, 2018	August 31, 2018
<b>USED IN CLIENT PROGRAMS</b>									
Land and land improvements	\$ 13,881,877	\$ -	\$ (1,200,039)	\$ 12,681,838	\$ 3,512,757	\$ 249,599	\$ (254,399)	\$ 3,507,957	\$ 9,173,881
Buildings and improvements	66,981,034	-	(7,759,120)	59,221,914	36,013,628	1,958,167	(3,364,769)	34,607,026	24,614,888
Fixed equipment	8,886,435	-	32,525	8,918,960	4,856,422	817,880	(279,712)	5,394,590	3,524,370
Capitalized maintenance	3,161,707	-	161,764	3,323,471	2,585,568	455,370	(172,911)	2,868,027	455,444
Moveable equipment	17,739,879	-	(2,363,584)	15,376,295	14,408,751	1,972,832	(2,717,566)	13,664,017	1,712,278
Construction in progress	671,013	5,316,683	(2,747,056)	3,240,640	-	-	-	-	3,240,640
	<u>111,321,945</u>	<u>5,316,683</u>	<u>(13,875,510)</u>	<u>102,763,118</u>	<u>61,377,126</u>	<u>5,453,848</u>	<u>(6,789,357)</u>	<u>60,041,617</u>	<u>42,721,501</u>
<b>NOT USED IN CLIENT PROGRAMS</b>									
Land and land improvements	3,107,302	-	105,132	3,212,434	656,008	41,854	(43,934)	653,928	2,558,506
Buildings and improvements	11,400,137	-	1,410,261	12,810,398	3,592,853	247,444	101,432	3,941,729	8,868,669
Fixed equipment	1,116,534	-	90,086	1,206,620	398,308	46,009	24,450	468,767	737,853
Capitalized maintenance	53,173	-	20,755	73,928	53,173	10,512	(10,781)	52,904	21,024
Moveable equipment	1,748,063	-	(137,404)	1,610,659	1,640,692	60,553	(168,515)	1,532,730	77,929
Construction in progress	1,210	143,281	(144,491)	-	-	-	-	-	-
	<u>17,426,419</u>	<u>143,281</u>	<u>1,344,339</u>	<u>18,914,039</u>	<u>6,341,034</u>	<u>406,372</u>	<u>(97,348)</u>	<u>6,650,058</u>	<u>12,263,981</u>
	<u>\$ 128,748,364</u>	<u>\$ 5,459,964</u>	<u>\$ (12,531,171)</u>	<u>\$ 121,677,157</u>	<u>\$ 67,718,160</u>	<u>\$ 5,860,220</u>	<u>\$ (6,886,705)</u>	<u>\$ 66,691,675</u>	<u>\$ 54,985,482</u>