

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

Watertown, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Matters

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other financial information on pages 38-46 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, cash flows and functional operating expenses of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2019 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 5, 2019

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As of August 31, 2019 and 2018

ASSETS		
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,284,903	\$ 9,819,547
Accounts receivable:		
Client programs	7,469,331	7,401,441
Interest and other	839,060	1,178,057
Legacies	410,412	9,543,432
Supply inventories	207,730	236,759
Prepaid expenses and other current assets	1,101,959	1,055,795
Assets held for sale	<u>1,800,000</u>	<u>4,427,358</u>
Total Current Assets	<u>19,113,395</u>	<u>33,662,389</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED		
Funds held on behalf of clients	1,625,902	2,101,052
Escrow deposits	3,586,842	1,435,578
Other donor restricted assets	<u>30,626</u>	<u>30,611</u>
Total Assets Whose Use is Limited or Restricted	<u>5,243,370</u>	<u>3,567,241</u>
OTHER ASSETS		
Investments	93,188,634	104,340,854
Assets relating to split-interest agreements and trusts	13,266,930	13,338,169
Notes receivable and other assets	<u>40,715</u>	<u>42,175</u>
Total Other Assets	<u>106,496,279</u>	<u>117,721,198</u>
PROPERTY AND EQUIPMENT	<u>56,091,742</u>	<u>54,985,482</u>
TOTAL ASSETS	<u>\$ 186,944,786</u>	<u>\$ 209,936,310</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,237,329	\$ 3,728,095
Salaries, wages, related withholdings and fringe benefits	7,692,271	7,911,759
Line of credit	35,000,000	35,000,000
Current portion of mortgage notes payable - HUD	213,722	195,368
Other current liabilities	<u>107,533</u>	<u>42,719</u>
Total Current Liabilities	<u>47,250,855</u>	<u>46,877,941</u>
LONG-TERM LIABILITIES		
Due to beneficiaries and others under split-interest agreements and trusts	7,798,961	7,681,167
Mortgage notes payable - HUD	1,220,571	1,434,293
Pension plan liability	22,302,897	10,051,810
Funds held on behalf of clients	1,056,728	1,581,576
Other long-term liabilities	<u>1,417,180</u>	<u>876,701</u>
Total Long-Term Liabilities	<u>33,796,337</u>	<u>21,625,547</u>
Total Liabilities	<u>81,047,192</u>	<u>68,503,488</u>
NET ASSETS		
Without donor restrictions	92,607,859	128,582,803
With donor restrictions	<u>13,289,735</u>	<u>12,850,019</u>
Total Net Assets	<u>105,897,594</u>	<u>141,432,822</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 186,944,786</u>	<u>\$ 209,936,310</u>

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING PUBLIC SUPPORT			
Contributions and legacies	\$ 6,928,162	\$ -	\$ 6,928,162
Net assets released from restrictions - operations	887,657	(887,657)	-
Total Operating Public Support	<u>7,815,819</u>	<u>(887,657)</u>	<u>6,928,162</u>
OPERATING REVENUE			
Program service revenue	90,511,297	-	90,511,297
Investment income, net of fees	2,804,383	-	2,804,383
Retail operations income	6,738,540	-	6,738,540
Rental income	252,978	-	252,978
Impairment loss and gain/loss on sale of property and equipment	(341,178)	-	(341,178)
Change in value of split-interest annuities	52,327	(12,693)	39,634
Other	723,935	-	723,935
Total Operating Revenue	<u>100,742,282</u>	<u>(12,693)</u>	<u>100,729,589</u>
Total Operating Public Support and Revenue	<u>108,558,101</u>	<u>(900,350)</u>	<u>107,657,751</u>
OPERATING EXPENSES			
Program expenses	106,389,286	-	106,389,286
Management and general expenses	20,789,832	-	20,789,832
Fundraising expenses	3,802,392	-	3,802,392
Total Operating Expenses	<u>130,981,510</u>	<u>-</u>	<u>130,981,510</u>
Change in Net Assets Before Non-Operating Activities	<u>(22,423,409)</u>	<u>(900,350)</u>	<u>(23,323,759)</u>
NON-OPERATING ACTIVITIES			
Net assets released from restrictions - property and equipment	138,406	(138,406)	-
Restricted contributions	-	1,438,141	1,438,141
Restricted investment income	-	40,331	40,331
Market adjustment for fixed income investments	1,023,286	-	1,023,286
Adjustment to unfunded pension plan liability	(14,713,227)	-	(14,713,227)
Total Non-Operating Activities	<u>(13,551,535)</u>	<u>1,340,066</u>	<u>(12,211,469)</u>
CHANGE IN NET ASSETS	<u>(35,974,944)</u>	<u>439,716</u>	<u>(35,535,228)</u>
NET ASSETS - BEGINNING OF YEAR	<u>128,582,803</u>	<u>12,850,019</u>	<u>141,432,822</u>
NET ASSETS - END OF YEAR	<u>\$ 92,607,859</u>	<u>\$ 13,289,735</u>	<u>\$ 105,897,594</u>

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING PUBLIC SUPPORT			
Contributions and legacies	\$ 20,758,437	\$ -	\$ 20,758,437
Net assets released from restrictions - operations	<u>796,310</u>	<u>(796,310)</u>	<u>-</u>
Total Operating Public Support	<u>21,554,747</u>	<u>(796,310)</u>	<u>20,758,437</u>
OPERATING REVENUE			
Program service revenue	94,392,609	-	94,392,609
Investment income, net of fees	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	<u>791,166</u>	<u>-</u>	<u>791,166</u>
Total Operating Revenue	<u>115,032,175</u>	<u>(1,866)</u>	<u>115,030,309</u>
Total Operating Public Support and Revenue	<u>136,586,922</u>	<u>(798,176)</u>	<u>135,788,746</u>
OPERATING EXPENSES			
Program expenses	113,580,974	-	113,580,974
Management and general expenses	20,079,201	-	20,079,201
Fundraising expenses	<u>3,404,526</u>	<u>-</u>	<u>3,404,526</u>
Total Operating Expenses	<u>137,064,701</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>(1,275,955)</u>
NON-OPERATING ACTIVITIES			
Net assets released from restrictions - property and equipment	10,936	(10,936)	-
Restricted contributions	-	1,273,804	1,273,804
Restricted investment income	-	31,111	31,111
Market adjustment for fixed income investments	(799,659)	-	(799,659)
Adjustment to unfunded pension plan liability	<u>7,270,393</u>	<u>-</u>	<u>7,270,393</u>
Total Non-Operating Activities	<u>6,481,670</u>	<u>1,293,979</u>	<u>7,775,649</u>
CHANGE IN NET ASSETS	6,003,891	495,803	6,499,694
NET ASSETS - BEGINNING OF YEAR	<u>122,578,912</u>	<u>12,354,216</u>	<u>134,933,128</u>
NET ASSETS - END OF YEAR	<u>\$ 128,582,803</u>	<u>\$ 12,850,019</u>	<u>\$ 141,432,822</u>

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended August 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (35,535,228)	\$ 6,499,694
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Bad debt expense (recovery)	(157,083)	(251,970)
Net unrealized (gain) loss on investments	1,634,790	(5,164,875)
Accretion	-	9,930
Depreciation	5,705,950	5,860,220
Impairment and (gain) loss on sale of property and equipment	341,178	(3,271,493)
Net realized gain on investments	(3,071,359)	(1,733,101)
Net change in split interest agreements	82,201	(300,575)
Contributions restricted for endowment	-	(19,599)
Restricted investment income, net	(40,331)	(31,111)
Change in beneficial interest in assets held by others	106,817	(379,533)
Adjustment to unfunded pension plan liability	14,713,227	(7,270,393)
Changes in assets and liabilities		
Client programs receivable	89,193	1,674,598
Interest and other receivable	338,997	104,475
Legacies receivable	9,133,020	(8,848,901)
Supply inventories	29,029	112,922
Prepaid expenses and other current assets	(46,164)	(12,969)
Notes receivable and other assets	1,460	527
Funds held on behalf of clients	(49,698)	109,164
Accounts payable	(638,564)	141,575
Salaries, wages, related withholdings and fringe benefits	(219,488)	(1,782,002)
Pension plan liability	(2,462,140)	(2,366,462)
Other current liabilities	64,814	(888)
Other long-term liabilities	540,479	45,284
Net Cash Flows from Operating Activities	<u>(9,438,900)</u>	<u>(16,875,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,665,754)	(5,596,898)
Proceeds from sale of property and equipment	1,287,522	8,715,800
Purchase of investments	(10,464,807)	(13,173,971)
Proceeds from sale of investments	23,053,596	18,527,954
Net change in escrow deposits	(2,151,264)	(170,448)
Net Cash Flows from Investing Activities	<u>7,059,293</u>	<u>8,302,437</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	-	(54,735)
Principal payments on mortgage notes payable - HUD	(195,368)	(178,995)
Net restricted investment income	40,331	31,111
Contributions restricted for endowment	-	19,599
Net Cash Flows from Financing Activities	<u>(155,037)</u>	<u>(183,020)</u>
Net Change in Cash and Cash Equivalents	<u>(2,534,644)</u>	<u>(8,756,066)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>9,819,547</u>	<u>18,575,613</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,284,903</u>	<u>\$ 9,819,547</u>
Supplemental cash flow disclosures:		
Cash paid for interest	<u>\$ 1,319,491</u>	<u>\$ 1,090,440</u>
Noncash investing and financing activities:		
Purchases of property and equipment in accounts payable	<u>\$ 1,174,813</u>	<u>\$ 27,015</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, 2019

	Program	Management and General	Fundraising	Total
Salaries	\$ 61,330,893	\$ 11,002,536	\$ 1,835,039	\$ 74,168,468
Payroll taxes and benefits	13,586,283	1,932,983	306,447	15,825,713
Supplies	4,091,611	227,904	96,223	4,415,738
Repairs	2,220,598	61,315	-	2,281,913
Client professional and other services	4,639,435	204	-	4,639,639
Staff development	203,263	1,180,294	31,780	1,415,337
Legal, audit and other professional services	371,097	2,437,089	201,559	3,009,745
Other general outside services	3,512,944	931,079	1,096,313	5,540,336
Travel, meals, lodging and gasoline	1,622,458	504,530	184,857	2,311,845
Rent	3,070,370	113,537	-	3,183,907
Telephone and internet services	1,161,582	191,137	15,913	1,368,632
Electricity, natural gas, water and sewer	1,640,152	193,656	-	1,833,808
Property and liability insurance	1,960,349	246,780	15,176	2,222,305
Depreciation	4,883,145	819,595	3,210	5,705,950
Interest	145,123	1,181,077	-	1,326,200
Medicaid assessment fees	1,241,682	-	-	1,241,682
All other	708,301	(233,884)	15,875	490,292
Total Expenses	\$ 106,389,286	\$ 20,789,832	\$ 3,802,392	\$ 130,981,510

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	\$ 64,283,148	\$ 8,877,229	\$ 1,699,796	\$ 74,860,173
Payroll taxes and benefits	16,611,411	1,762,366	345,376	18,719,153
Supplies	4,550,255	208,621	139,144	4,898,020
Repairs	1,591,116	1,382,121	1,826	2,975,063
Client professional and other services	5,439,885	258,672	5,042	5,703,599
Staff development	200,268	881,766	80,834	1,162,868
Legal, audit, and other professional services	356,286	2,089,577	615,521	3,061,384
Other general outside services	3,444,422	2,110,830	298,087	5,853,339
Travel, meals, lodging and gasoline	1,588,629	507,391	181,079	2,277,099
Rent	3,345,575	27,900	-	3,373,475
Telephone and internet services	1,205,599	153,300	13,769	1,372,668
Electricity, natural gas, water and sewer	1,791,943	244,108	-	2,036,051
Property and liability insurance	1,868,152	197,955	13,255	2,079,362
Depreciation and amortization	5,296,614	570,121	3,415	5,870,150
Interest	155,504	934,936	-	1,090,440
Medicaid assessment fees	1,337,474	-	-	1,337,474
All other	514,693	(127,692)	7,382	394,383
Total Expenses	\$ 113,580,974	\$ 20,079,201	\$ 3,404,526	\$ 137,064,701

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, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

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

Basis of Presentation

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

Cash and Cash Equivalents

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. Client programs receivable is shown net of an allowance for doubtful accounts of \$258,480 and \$616,223 as of August 31, 2019 and 2018, respectively. For the year ending August 31, 2019 and 2018, bad debt expense (recovery) was \$(157,083) and \$(251,970), 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, 2019 and 2018.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

Legacies Receivable (continued)

Legacies receivable of \$410,412 and \$9,543,432 as of August 31, 2019 and 2018, respectively, are expected to be collected in less than one year.

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 net assets without donor restrictions unless the income or loss is restricted by donor or law.

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

The Organization's external investment managers are authorized to use specified derivative financial instruments, 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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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

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

The Organization has recorded a liability of \$327,684 for estimated asbestos clean-up costs as of August 31, 2019 and 2018 and it is presented as other long-term liabilities in the consolidated statements of financial position.

Assets Held for Sale

During 2018, the Organization closed certain programs and was marketing nine buildings for sale with net book value totaling \$4,427,358. During 2019, the Organization sold four of the buildings with total gross proceeds of \$889,590, one building remained on the market with a fair value of \$1,800,000 and four of the buildings were placed back into service. No new buildings were added to assets held for sale in 2019. Management has an accepted offer on the remaining property and expects it to be sold within the next fiscal year. All properties held for sale are recorded at historical cost net of accumulated depreciation at the time the assets were classified as held for sale or net realizable value, whichever is lower.

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 \$920,639 and \$0 during the years ending August 31, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

Net Assets

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

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

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

Board Designated Net Assets

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. The Organization's Board of Directors has not designated any amounts as of August 31, 2019 and 2018.

Tax-Exempt Status

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

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

The Organization follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on the tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting during interim periods. The Organization does not believe that it has any uncertain tax positions at August 31, 2019 and 2018.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

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 net assets with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification or law that income and gains on donated funds are restricted, such income and gains are reported as contributions without donor restrictions.

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.

Operations

The Organization's operating results include all operating revenues and expenses that are an integral part of its programs and supporting activities. Contributions and releases from donor restrictions to support its operating activities are also included. The measure of operations excludes net assets released from restrictions for property and equipment, restricted contributions, restricted investment income, market adjustment for fixed income investments and adjustment to unfunded pension plan liability.

Expense Allocation

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

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

Reclassification

For comparability, certain 2018 amounts have been reclassified to conform with classifications adopted in 2019. The reclassifications have no effect on reported amount of net assets or change in net assets.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted ASU No. 2016-14 in 2019 and has applied the changes retrospectively to all periods presented, except for the disclosure about liquidity and availability of financial assets. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14. The adoption of ASU No. 2016-14 did not affect total net assets or change in net assets. The new standard changed the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- Certain expenses within the statements of functional expenses were reclassified to be consistent with the guidance.
- The consolidated financial statements include a disclosure about liquidity and availability of financial assets (Note 2).

New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance. ASU No. 2014-09 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). The changes 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 assessing the effect that ASU No. 2014-09 (as amended) will have on its consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 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 No. 2018-08 is effective for contributions received during annual periods beginning after December 15, 2018 (2020) and contributions made during annual periods beginning after December 15, 2019 (2021). Management is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. 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 consolidated financial statements explain the nature of the restrictions. The Organization will be required to apply the standard for annual periods beginning after December 15, 2018 (2020). The standard should be applied retrospectively upon adoption. Management is currently assessing the effect that ASU No. 2016-18 will have on its consolidated financial statements.

In March 2017, FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the income statement 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 annual periods beginning after December 15, 2018 (2020). The standard should be applied retrospectively. Management is currently assessing the effect that ASU No. 2017-07 will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. For not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the counter market, ASU No. 2016-02 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). All other entities will be required to apply the standard for annual periods beginning after December 15, 2020 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

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

In August 2016, FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses eight cash flow issues with specific guidance on how certain cash receipts and cash payments should be presented on the statement of cash flows. ASU No. 2016-15 is effective for annual periods beginning after December 15, 2018 (2020) and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-15 will have on its consolidated financial statements.

NOTE 2 - Liquidity and Availability of Financial Assets

The Organization's primary sources of liquidity are its cash, short term accounts receivable, and investments, which total \$109.2 million as of August 31, 2019. Of these assets, \$2.7 million are restricted based on purpose and time and \$6.4 million are restricted into perpetuity by donor or other contractual restrictions. \$4.1 million is reserved for future payouts on charitable gift annuities, and a CD of \$2.0 million is held to secure corporate credit card liabilities. Accordingly, \$94.0 million is available for operational use and to fulfill the Organization's mission to provide care for the people we serve. Current available assets are considered to be more than sufficient to fund the Organization's planned operating and capital expenditures over the next twelve months.

The Organization has \$3.6 million of funds in escrow which are designated for construction and capital improvement projects. \$1.5 million of this amount is reserved for capital improvements made to HUD program properties, and any withdrawals are subject to the approval of HUD. \$2.1 million is on deposit with the Lutheran Church Extension Fund ("LCEF"), and is solely for construction costs related to a new mixed-use rental property in Victoria, Minnesota under ownership of Cornerstone Village – Victoria, LLC.

The Organization holds deposits of \$1.6 million on behalf of clients which relate to its role as organizational representative payee. These funds are owned by and are solely for the use of Bethesda Lutheran Communities, Inc.'s clients and are segregated from operational bank accounts.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 2 - Liquidity and Availability of Financial Assets (continued)

The Organization also holds a beneficial interest of \$13.3 million in various donor trusts. \$11.5 million is held in trusts that do not currently provide income to the Organization but will provide a future benefit upon occurrence of certain events. \$1.8 million is held by the Good Shepherd Fund; investment income generated by these trusts may be used for operational expenses, however the principal amounts are restricted in perpetuity.

The Organization's operations are largely funded by payments from Medicaid and other federal and state agencies, and additional capital is provided by investment returns and the controlled liquidation of foundation assets as required. The Foundation exists for the benefit of Bethesda Lutheran Communities, Inc. and Foundation assets are to be solely used to fulfill the Organization's mission. The board authorizes distributions from the Foundation up to a certain limit at the beginning of each fiscal year and adjusts funding accordingly if management identifies the need for additional cash flow during the year. The Organization has a balanced investment strategy for managing Foundation assets, which generally consists of a mix of 65% stocks, 30% fixed income, and 5% cash. The Foundation's board receives quarterly advice from the Organization's portfolio manager, Merrill Lynch, and changes to investment strategy require board approval.

During the fiscal year ended August 31, 2019, the Organization saw a decrease in liquid assets (cash, short term accounts receivable, and investments) of \$23.1 million. \$3.6 million of this amount was for required funding of the legacy pension plan. \$5.4 million was related to net capital expenditures, which includes \$1.3 million of proceeds received on sale of property and equipment, \$4.6 million in purchases of fixed assets, and \$2.1 million of funds held in escrow for Cornerstone Village construction costs. The remaining \$14.1 million decrease was primarily related to operational losses, which were largely funded by a net sale of foundation investments during the year.

At August 31, 2019, the Company had a \$45.0 million revolving line of credit with Bank of America, with an outstanding balance of \$35.0 million. The line of credit bears interest at the daily LIBOR rate plus 95 basis points. The line of credit is secured by Foundation assets, and is subject to call if pledged assets fall below \$70.0 million. The Organization does not plan to increase the amount outstanding or take additional draws on the line during the next twelve months, and any action to do so would require board approval. Management is seeking to reduce the amount due on the line of credit by refinancing all or part of the current balance against real estate holdings during fiscal year 2020.

In August 2019, the Organization closed on a \$14.7 million dollar delayed-draw construction loan with LCEF to finance construction of the new rental property in Victoria, MN. The note bears interest at an initial rate of 5.25% annually, and converts to a permanent mortgage loan on August 1, 2021 with a maturity date of August 31, 2031. Once converted, the mortgage will bear interest at an initial variable rate of 4.75%. Principal payments are due following conversion of the note; interest only payments are required once proceeds are drawn through the conversion date. There was no balance outstanding as of August 31, 2019. \$2.1 million of cash was put into escrow with LCEF upon closing; these funds are to be utilized solely for construction costs, prior to draw of any funds on the related note. The note includes a \$2.0 million guarantee provided by the Foundation, which is in effect until certain criteria (such as meeting debt service requirements for two consecutive years) are satisfied once construction is complete and the building is operational. Management expects to meet all requirements to remove the guarantee in a timely manner.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 2 - Liquidity and Availability of Financial Assets (continued)

In consideration of future liquidity needs, management has presented a five-year plan to achieve cash flow neutrality. The plan includes new real estate developments under the Cornerstone Village brand, investment in retail operations and philanthropic resources, and continuing to pursue growth in mission based operations. Additionally, management is evaluating various real estate holdings to determine the best use of each for the Organization, including potential sale. Two properties are under pending contract for sale as of September, 2019, which are expected to generate proceeds of \$2.0 million that will be available for use during fiscal year 2020.

In October 2019, the Organization secured the designation of church plan status for its legacy pension program. This change is expected to result in annual savings of approximately \$700 thousand, and \$2.6 million of previously paid insurance premiums intend to be recouped in fiscal year 2020.

NOTE 3 - Fair Value Measurements

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, 2019 and 2018

NOTE 3 - Fair Value Measurements (continued)

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

	August 31, 2019			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds	\$ 58,298,349	\$ 58,298,349	\$ -	\$ -
Common and preferred stock	9,108,933	9,108,933	-	-
Church extension funds	5,840	-	5,840	-
Fixed income securities	16,126,632	16,126,632	-	-
Hedge funds	383,213	-	-	383,213
Mutual funds - charitable gift annuities	7,093,649	7,093,649	-	-
Fixed income securities - charitable gift annuities	316,481	316,481	-	-
457 plan investments - mutual funds	695,995	695,995	-	-
Money market funds - charitable gift annuities	1,159,542	-	1,159,542	-
Total	<u>\$ 93,188,634</u>	<u>\$ 91,640,039</u>	<u>\$ 1,165,382</u>	<u>\$ 383,213</u>
Assets relating to split- interest agreements and trusts				
Fixed income mutual funds	\$ 3,938,242	\$ 3,938,242	\$ -	\$ -
Money market funds	419,520	-	419,520	-
Equity mutual funds	4,726,558	4,726,558	-	-
Beneficial interest in assets held by others	4,182,610	-	-	4,182,610
Total	<u>\$ 13,266,930</u>	<u>\$ 8,664,800</u>	<u>\$ 419,520</u>	<u>\$ 4,182,610</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 3 - Fair Value Measurements (continued)

	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>

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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 3 - Fair Value Measurements (continued)

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

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

	Hedge Funds	Beneficial Interest in Assets Held by Others
Balance, August 31, 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	502,172	4,289,427
Net realized and unrealized gains (losses) included in change in net assets	20,988	(106,817)
Sales	(139,947)	-
Balance, August 31, 2019	\$ 383,213	\$ 4,182,610
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2019	\$ 7,489	\$ (106,817)
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2018	\$ (10,584)	\$ 379,523

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, 2019 and four funds at August 31, 2018. 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 are allocated among alternative investment managers. The funds pursue a variety of investment strategies. The primary objective of the hedge funds is to provide capital appreciation with less volatility than that of the equity market.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 3 - 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, 2019. There were no similar transactions during the year ending August 31, 2018.

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

NOTE 4 - Escrow Deposits

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

Monthly escrow deposits are made as required by HUD for the reserve for replacements and are maintained in interest bearing accounts separate from the operating account of the HUD projects. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this escrow reverts to the benefit of the project. The balances in the reserve for replacement escrow accounts were \$1,251,048 and \$1,143,774 as of August 31, 2019 and 2018, respectively.

HUD requires the HUD projects to remit all cash remaining, if any, after the establishment of all required escrows and reserves and the payment of all expenses and allowable disbursements to a residual receipts fund on an annual basis. Deposits are made within 90 days after year-end and are maintained in interest bearing accounts separate from the operating accounts of the HUD projects. Withdrawals may be made with permission from HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this fund reverts to the benefit of HUD. The balances in the residual receipts escrow accounts were \$285,492 and \$285,210 as of August 31, 2019 and 2018, respectively.

HUD escrow deposits for insurance reserves were \$6,597 and \$6,594 as of August 31, 2019 and 2018, respectively.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 5 - Investments

Following is a summary of investments as of August 31:

	2019	2018
Common and preferred stocks	\$ 9,108,933	\$ 9,496,984
Fixed income securities	16,126,632	17,128,720
Mutual funds	58,298,349	68,444,564
Mutual funds - charitable gift annuities	7,093,649	7,031,768
Fixed income securities - charitable gift annuities	316,481	127,743
Church extension funds	5,840	4,720
Hedge funds	383,213	502,172
457 plan investments - mutual funds	695,995	548,981
Money market funds - charitable gift annuities	<u>1,159,542</u>	<u>1,055,202</u>
Total	<u>\$ 93,188,634</u>	<u>\$ 104,340,854</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.

The asset allocation size and style mix was large cap growth 23% and 24%, large cap value 26% and 15%, small/mid cap growth 2% and 6%, small/mid cap value 4% and 7%, international equity 12% and 12%, long term bonds 4% and 9%, intermediate term bonds 7% and 10%, short term bonds 8% and 10%, fixed income blend 11% and 1%, and cash 3% and 6%, as of August 31, 2019 and 2018, respectively. The Foundation's board receives quarterly advice from the Organization's portfolio manager, Merrill Lynch, and changes to investment strategy require board approval.

NOTE 6 - Property and Equipment

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

	Depreciable Lives	2019	2018
Land and land improvements	5-40 yrs.	\$ 17,031,026	\$ 15,894,272
Buildings, improvements and capitalized maintenance	5-40 yrs.	79,082,368	75,429,711
Fixed and moveable equipment	3-20 yrs.	27,945,076	27,112,534
Construction in progress	N/A	<u>1,686,558</u>	<u>3,240,640</u>
Total Property and Equipment		125,745,028	121,677,157
Less: Accumulated depreciation		<u>(69,653,286)</u>	<u>(66,691,675)</u>
Net Property and Equipment		<u>\$ 56,091,742</u>	<u>\$ 54,985,482</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 7 - 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, 2019 and 2018 was \$1,047,881 and \$993,625, respectively.

Defined Benefit Plan

The Organization had a noncontributory retirement plan covering substantially all of the Organization's employees who had completed one year of service (as defined) and were over 18 years of age. The Organization's policy is to contribute annually the amount required 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	2019	2018
Projected Benefit Obligation at beginning of year	\$ 80,306,791	\$ 88,370,869
Service cost	445,092	372,962
Interest cost	3,182,666	3,265,276
Actuarial loss (gain)	13,605,492	(5,090,005)
Benefits paid and administrative costs	(5,638,075)	(6,612,311)
Projected Benefit Obligation at end of year	<u>\$ 91,901,966</u>	<u>\$ 80,306,791</u>
Change in plan assets	2019	2018
Fair value of plan assets at beginning of year	\$ 68,254,981	\$ 65,882,204
Employer contribution	3,000,000	2,800,000
Actual return on plan assets	2,982,163	6,185,088
Benefits paid and administrative costs	(5,638,075)	(6,612,311)
Fair value of plan assets at end of year	<u>\$ 68,599,069</u>	<u>\$ 68,254,981</u>
Funded status of the plan	<u>\$ (23,302,897)</u>	<u>\$ (12,051,810)</u>

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

	2019	2018
Accrued benefit cost - included in salaries, wages, related withholdings and fringe benefits	\$ (1,000,000)	\$ (2,000,000)
Pension plan liability	<u>(22,302,897)</u>	<u>(10,051,810)</u>
Total	<u>\$ (23,302,897)</u>	<u>\$ (12,051,810)</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 7 - Retirement Plans (continued)

Defined Benefit Plan (continued)

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

	2019	2018
Service cost	\$ 445,092	\$ 372,962
Interest cost	3,182,666	3,265,276
Expected return on plan assets	(4,532,380)	(4,627,473)
Amortization of net loss	442,482	622,772
Operating portion of pension expense	<u>\$ (462,140)</u>	<u>\$ (366,463)</u>

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:

	2019	2018
Unrecognized net gain (loss)	<u>\$ (14,713,227)</u>	<u>\$ 7,270,393</u>

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

	2019	2018
Unrecognized net loss	<u>\$ (36,208,629)</u>	<u>\$ (21,495,402)</u>

The accumulated benefit obligation for this defined benefit retirement plan was \$91,901,966 and \$80,306,791 at August 31, 2019 and 2018, respectively. Since benefit accruals were frozen during 2013, the projected benefit obligation is equal to the accumulated benefit obligation at August 31, 2019 and 2018.

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

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 7 - Retirement Plans (continued)

Defined Benefit Plan (continued)

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

	<u>2019</u>	<u>2018</u>
Weighted average discount rate	4.07%	3.77%
Increase in future compensation levels	n/a	n/a
Expected long-term rate of return on assets	6.75%	6.75%

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

	<u>2019</u>	<u>2018</u>
Weighted average discount rate	3.00%	4.07%
Increase in future compensation levels	n/a	n/a

The following benefit payments are expected to be paid:

2020	\$ 3,846,343
2021	3,915,512
2022	4,004,595
2023	3,976,648
2024	4,006,316
2024-2028	<u>21,551,590</u>
Total	<u>\$ 41,301,004</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, 2020. 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 \$1.0 million contribution to the plan in the next fiscal year.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 7 - Retirement Plans (continued)

Defined Benefit Plan (continued)

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, 2019			
		Total	Level 1	Level 2	Level 3
Assets:					
Common stocks	\$	45,726,565	\$ 45,726,565	\$ -	\$ -
Fixed income		19,789,638	19,789,638	-	-
Money market funds		2,912,414	-	2,912,414	-
Hedge funds		170,452	-	-	170,452
Total assets	\$	<u>68,599,069</u>	<u>\$ 65,516,203</u>	<u>\$ 2,912,414</u>	<u>\$ 170,452</u>
		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		224,508	-	-	224,508
Total assets	\$	<u>68,254,981</u>	<u>\$ 63,270,958</u>	<u>\$ 4,759,515</u>	<u>\$ 224,508</u>

The asset allocation size and style mix was large cap growth 24% and 24%, large cap value 27% and 17%, small/mid cap growth 2% and 6%, small/mid cap value 6% and 7%, international equity 9% and 11%, long term bonds 4% and 10%, intermediate term bonds 6% and 8%, short term bonds 7% and 9%, fixed income blend 12% and 1%, and cash 3% and 7%, as of August 31, 2019 and 2018, respectively. The Pension Trustee's receives quarterly advice from the Organization's portfolio manager, Merrill Lynch, and changes to investment strategy require Pension Trustee approval.

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 3.

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

	Hedge Funds
Balance, August 31, 2017	\$ 328,668
Net gains (realized and unrealized)	5,214
Sales	(109,374)
Balance, August 31, 2018	224,508
Net gains (realized and unrealized)	9,399
Sales	(63,455)
Balance, August 31, 2019	<u>\$ 170,452</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 7 - Retirement Plans (continued)

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.

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

The Organization has four types of split-interest agreements.

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

Bethesda Lutheran Home Pooled Income 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.

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.

NOTE 9 - Debt

The Organization has a \$45,000,000 line of credit with Bank of America with a variable interest rate of LIBOR plus 0.95% (at August 31, 2019 and 2018 the interest rate was 3.04% and 3.02%, respectively), and a maturity date of January 31, 2020. 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 at August 31, 2019 and 2018. Interest expense on the line of credit was \$1,181,077 and \$934,936 for the years ended August 31, 2019 and 2018, respectively. Management is seeking to reduce the amount due on the line of credit by refinancing all or part of the current balance against real estate holdings during fiscal year 2020.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 9 - Debt (continued)

In August 2019, the Organization closed on a \$14.7 million dollar delayed-draw construction loan with LCEF to finance construction of a new mixed-used rental property in Victoria, MN. The note bears interest at an initial rate of 5.25% annually, and converts to a permanent mortgage loan on August 1, 2021, with a maturity date of August 1, 2031. Beginning in September 2019, payments of interest only are due on the disbursed principal balance outstanding. There was no balance outstanding at August 31, 2019.

Once converted, the mortgage note will bear interest at an initial variable rate of 4.75%. Beginning in September 2021, the loan agreement calls for 119 monthly payments of principal and interest, with a final 120th balloon payment of all remaining principal and interest on the maturity date. The note will be amortized over a period of 360 months.

The note includes a \$2.0 million guarantee provided by the Foundation, which is in effect until certain criteria (such as meeting debt service requirements for two consecutive years) are satisfied once construction is complete and the building is operational. Management expects to meet all requirements to remove the guarantee in a timely manner.

NOTE 10 - Mortgage Notes Payable - HUD

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

	<u>2019</u>	<u>2018</u>
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	\$ 167,302	\$ 202,065
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.	143,351	150,603
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.	1,806	2,836
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	353,827	468,890
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	333,305	348,300
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	347,542	364,245

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 10 - Mortgage Notes Payable - HUD (continued)

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	\$ 87,160	\$ 92,722
Totals	1,434,293	1,629,661
Less: Current portion	(213,722)	(195,368)
Long-Term Portion	\$ 1,220,571	\$ 1,434,293

Interest expense on mortgage notes payable - HUD was \$138,414 and \$155,504 for the years ended August 31, 2019 and 2018, respectively.

Principal requirements on mortgage notes payable for years ending after August 31, 2019 are as follows:

2020	\$ 213,722
2021	233,556
2022	192,380
2023	103,804
2024	67,691
Thereafter	623,140
Total	<u>\$ 1,434,293</u>

NOTE 11 - Self-Insurance

The Organization has a self-insurance program for health coverage of employees. The Organization self insures benefits under its health plan up to a stop loss of \$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 \$827,304 and \$922,156 as of August 31, 2019 and 2018, 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, 2019 and 2018

NOTE 12 - Net Assets With Donor Restrictions

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

	2019	2018
Restricted due to time or purpose:		
Time restricted	\$ 2,187	\$ 14,880
Purpose restricted	2,675,520	2,135,852
Irrevocable trust held by a third party	253,482	253,482
Held by Lutheran Church Extension Fund - Missouri Synod	2,157,299	2,264,117
Restricted due to requirements to hold in perpetuity:		
Restricted for endowment	6,429,419	6,409,860
Held by Good Shepherd Fund	1,771,828	1,771,828
Totals	<u>\$ 13,289,735</u>	<u>\$ 12,850,019</u>

NOTE 13 - Endowment

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 donor-restricted endowment fund as net assets with donor restrictions until appropriated for expenditure. Another key component is a requirement for expanded disclosures about all endowment funds.

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

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

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 13 - Endowment (continued)

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

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

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

2019					
	Without Donor Restrictions	With Donor Restrictions			Total Endowment
		Original Gifts	Accumulated Gain (Losses)	Total	
Donor-restricted endowment funds	\$ -	\$ 6,429,419	\$ 145,348	\$ 6,574,767	\$ 6,574,767
2018					
	Without Donor Restrictions	With Donor Restrictions			Total Endowment
		Original Gifts	Accumulated Gain (Losses)	Total	
Donor-restricted endowment funds	\$ -	\$ 6,409,860	\$ 137,894	\$ 6,547,754	\$ 6,547,754

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 13 - Endowment (continued)

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

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

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

	2018				
	Without Donor Restrictions	With Donor Restrictions			Total Endowment
		Original Gifts	Accumulated Gain (Losses)	Total	
Endowment net assets, beginning of year	\$ -	\$ 6,380,158	\$ 129,679	\$ 6,509,837	\$ 6,509,837
Investment income, net of fees	-	10,103	593,421	603,524	603,524
Contributions	-	19,599	-	19,599	19,599
Amounts appropriated for expenditure	-	-	(585,206)	(585,206)	(585,206)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 6,409,860</u>	<u>\$ 137,894</u>	<u>\$ 6,547,754</u>	<u>\$ 6,547,754</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 as of August 31, 2019 and 2018. These deficiencies would result from unfavorable market fluctuations that occurred shortly after the investment of new endowment contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in the endowment.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2019 and 2018

NOTE 13 - Endowment (continued)

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 net assets with donor restrictions. The Organization has elected to reflect the investment earnings that are appropriated for expenditure within the same year as investment income without donor restrictions in the consolidated statements of activities.

NOTE 14 - Leases

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

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

2020	\$ 1,990,065
2021	938,138
2022	660,427
2023	394,224
2024	75,392
Thereafter	<u>91,501</u>
Total	<u>\$ 4,149,747</u>

Rent expense on these operating leases was \$2,857,941 and \$3,054,578 for the years ended August 31, 2019 and 2018, respectively.

In fiscal year 2019, the Organization entered capital leases agreements for the use of vehicles. The capitalized cost of the lease property at August 31, 2019 and 2018 was \$538,709 and \$0, respectively. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was \$40,641 and \$0 as of August 31, 2019 and 2018, respectively.

Long-term capital lease obligation are included in other long-term liabilities on the consolidated statements of financial position. Interest expense related to capital leases was \$6,709 and \$0 for the years ended August 31, 2019 and 2018, respectively.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 14 - Leases (continued)

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

2020	\$ 80,946
2021	80,946
2022	80,946
2023	80,946
2024	<u>39,753</u>
Total Future Minimum Lease Payments	363,537
Less: Amount representing interest	(45,707)
Add: Residual value	<u>142,400</u>
Present Value of Future Minimum Lease Payments	460,230
Less: Current portion	<u>(66,766)</u>
Long-Term Capital Lease Obligation	<u>\$ 393,464</u>

NOTE 15 - Fiduciary Responsibilities

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 \$9,084,320 and \$9,048,742 as of August 31, 2019 and 2018, respectively. The amount due to beneficiaries as of August 31, 2019 and 2018 was \$3,728,575 and \$3,898,418, 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 \$8,569,673 and \$8,214,713 as of August 31, 2019 and 2018, respectively. The amount due to beneficiaries relating to gift annuities was \$4,070,386 and \$3,762,749 as of August 31, 2019 and 2018, respectively, and is included in due to beneficiaries and others under split interest agreements and trusts on the consolidated statements of financial position.

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 16 - Capital Advances

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

NOTE 17 - Commitments and Contingencies

Financial Awards from Grantors

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

Commitments

In July 2019, the Organization committed \$5,255,720 to the construction of Bethesda Cornerstone Village-Victoria, a 52 unit Christian Centered Housing development in Victoria, Minnesota. Of this commitment, \$4,910,347 is still outstanding as of August 31, 2019. The Organization will finance this project with the construction loan described in Note 9.

Litigation

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

NOTE 18 - Concentrations

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, 2019 and 2018 were from governmental third-party payors.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended August 31, 2019 and 2018

NOTE 18 - Concentrations (continued)

The Organization receives Medicaid funding from programs in various states. Medicaid reimbursement methodology varies from state to state. Approximately 25% and 27% of program service revenue were generated from services to Medicaid beneficiaries in 2019 and 2018, respectively. The Organization has receivables of \$2,255,044 and \$2,973,588 due from Medicaid at August 31, 2019 and 2018, respectively. Additionally, approximately 43% and 41% of program service revenue were generated from Medicaid Waiver Funding in 2019 and 2018, respectively. The Organization has receivables of \$3,433,501 and \$2,816,409 due from Medicaid Waiver Funding at August 31, 2019 and 2018, respectively.

NOTE 19 - Subsequent Events

In October 2019, the Organization secured the designation of church plan status for its frozen defined benefit pension plan. As a result, the pension plan will no longer be subject to the Employee Retirement Income Security Act of 1974 (ERISA). This change is expected to result in annual insurance premium savings of approximately \$700,000. In addition, \$2,624,000 of previously paid insurance premiums intend to be recouped in fiscal year 2020.

The Organization had two properties under pending contract for sale as of September, 2019, which are expected to generate proceeds of \$2,025,000 in fiscal year 2020.

The Organization has evaluated subsequent events through November 5, 2019, which is the date that the consolidated financial statements were approved and available to be issued.

SUPPLEMENTAL INFORMATION

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2019

ASSETS

	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 3,930,861	\$ 3,354,042	\$ -	\$ -	\$ 7,284,903
Accounts receivable:					
Client programs	7,469,331	-	-	-	7,469,331
Interest and other	450,244	388,816	-	-	839,060
Legacies	115,412	295,000	-	-	410,412
Intercompany	4,099,611	1,008,035	10,200	(5,117,846)	-
Supply inventories	207,730	-	-	-	207,730
Prepaid expenses and other current assets	1,101,959	-	-	-	1,101,959
Assets held for sale	1,800,000	-	-	-	1,800,000
Total Current Assets	19,175,148	5,045,893	10,200	(5,117,846)	19,113,395
ASSETS WHOSE USE IS LIMITED OR RESTRICTED					
Beneficial interest in subsidiaries	99,649,760	-	-	(99,649,760)	-
Funds held on behalf of clients	1,625,902	-	-	-	1,625,902
Escrow deposits	1,543,137	-	2,043,705	-	3,586,842
Other donor restricted assets	30,626	-	-	-	30,626
Total Assets Whose Use is Limited or Restricted	102,849,425	-	2,043,705	(99,649,760)	5,243,370
OTHER ASSETS					
Investments	3,803,209	89,385,425	-	-	93,188,634
Assets relating to split-interest agreements and trusts	4,182,610	9,084,320	-	-	13,266,930
Notes receivable and other assets	2,016	-	38,699	-	40,715
Total Other Assets	7,987,835	98,469,745	38,699	-	106,496,279
PROPERTY AND EQUIPMENT					
	54,334,125	-	1,928,448	(170,831)	56,091,742
TOTAL ASSETS	<u>\$ 184,346,533</u>	<u>\$ 103,515,638</u>	<u>\$ 4,021,052</u>	<u>\$ (104,938,437)</u>	<u>\$ 186,944,786</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
As of August 31, 2019

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable
Intercompany accounts payable
Salaries, wages, related withholdings and fringe benefits
Line of credit
Current portion of mortgage notes payable - HUD
Other current liabilities
Total Current Liabilities

Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
\$ 3,233,122	\$ 40,000	\$ 964,207	\$ -	\$ 4,237,329
4,276,696	-	841,150	(5,117,846)	-
7,692,271	-	-	-	7,692,271
35,000,000	-	-	-	35,000,000
213,722	-	-	-	213,722
107,533	-	-	-	107,533
<u>50,523,344</u>	<u>40,000</u>	<u>1,805,357</u>	<u>(5,117,846)</u>	<u>47,250,855</u>

LONG-TERM LIABILITIES

Due to beneficiaries and others under split-interest agreements and trusts
Mortgage notes payable - HUD
Pension plan liability
Funds held on behalf of clients
Other long-term liabilities
Total Long-Term Liabilities

1,757,388	6,041,573	-	-	7,798,961
1,220,571	-	-	-	1,220,571
22,302,897	-	-	-	22,302,897
1,056,728	-	-	-	1,056,728
1,417,180	-	-	-	1,417,180
<u>27,754,764</u>	<u>6,041,573</u>	<u>-</u>	<u>-</u>	<u>33,796,337</u>
78,278,108	6,081,573	1,805,357	(5,117,846)	81,047,192

NET ASSETS

Without donor restrictions
With donor restrictions
Total Net Assets

92,778,690	91,002,459	2,215,695	(93,388,985)	92,607,859
13,289,735	6,431,606	-	(6,431,606)	13,289,735
106,068,425	97,434,065	2,215,695	(99,820,591)	105,897,594
<u>\$ 184,346,533</u>	<u>\$ 103,515,638</u>	<u>\$ 4,021,052</u>	<u>\$(104,938,437)</u>	<u>\$ 186,944,786</u>

TOTAL LIABILITIES AND NET ASSETS

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended August 31, 2019

	Without Donor Restrictions				
	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
OPERATING PUBLIC SUPPORT					
Contributions and legacies	\$ 6,129,451	\$ 798,511	\$ 200	\$ -	\$ 6,928,162
Net assets released from restrictions - operations	887,657	-	-	-	887,657
Total Operating Public Support	7,017,108	798,511	200	-	7,815,819
OPERATING REVENUE					
Program service revenue	90,511,297	-	-	-	90,511,297
Investment income, net of fees	119,793	2,681,923	2,667	-	2,804,383
Retail operations income	6,738,540	-	-	-	6,738,540
Rental income	423,809	-	-	(170,831)	252,978
Impairment and loss on sale of property and equipment	(341,178)	-	-	-	(341,178)
Change in value of split-interest annuities	(235,048)	287,375	-	-	52,327
Change in beneficial interest in subsidiaries	(19,669,052)	-	-	19,669,052	-
Other	681,540	42,395	-	-	723,935
Total Operating Revenue	78,229,701	3,011,693	2,667	19,498,221	100,742,282
Total Operating Public Support and Revenue	85,246,809	3,810,204	2,867	19,498,221	108,558,101
OPERATING EXPENSES					
Program expenses	106,333,499	-	55,787	-	106,389,286
Management and general expenses	20,461,447	-	328,385	-	20,789,832
Fundraising expenses	3,756,155	46,237	-	-	3,802,392
Total Operating Expenses	130,551,101	46,237	384,172	-	130,981,510
Change in Net Assets Before Non-Operating Activities	(45,304,292)	3,763,967	(381,305)	19,498,221	(22,423,409)
NON-OPERATING ACTIVITIES					
Net assets released from restrictions - property and equipment	138,406	-	-	-	138,406
Market adjustment for fixed income investments	-	1,023,286	-	-	1,023,286
Adjustment to unfunded pension plan liability	(14,713,227)	-	-	-	(14,713,227)
Transfer between entities	24,075,000	(24,075,000)	2,597,000	(2,597,000)	-
Total Non-Operating Activities	9,500,179	(23,051,714)	2,597,000	(2,597,000)	(13,551,535)
CHANGE IN NET ASSETS	(35,804,113)	(19,287,747)	2,215,695	16,901,221	(35,974,944)
NET ASSETS - BEGINNING OF YEAR	128,582,803	110,290,206	-	(110,290,206)	128,582,803
NET ASSETS - END OF YEAR	\$ 92,778,690	\$ 91,002,459	\$ 2,215,695	\$ (93,388,985)	\$ 92,607,859

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES (continued) For the Year Ended August 31, 2019

	With Donor Restrictions				
	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
OPERATING PUBLIC SUPPORT					
Net assets released from restrictions - operations	\$ (887,657)	-	\$ -	\$ -	\$ (887,657)
OPERATING REVENUE					
Change in value of split-interest annuities	-	(12,693)	-	-	(12,693)
Change in beneficial interest in subsidiaries	6,867	-	-	(6,867)	-
Total Operating Revenue	6,867	(12,693)	-	(6,867)	(12,693)
Total Operating Public Support and Revenue	(880,790)	(12,693)	-	(6,867)	(900,350)
NON-OPERATING ACTIVITIES					
Net assets released from restrictions - property and equipment	(138,406)	-	-	-	(138,406)
Restricted contributions	1,438,141	-	-	-	1,438,141
Restricted investment income	20,771	19,560	-	-	40,331
Total Non-Operating Activities	1,320,506	19,560	-	-	1,340,066
CHANGE IN NET ASSETS	439,716	6,867	-	(6,867)	439,716
NET ASSETS - BEGINNING OF YEAR	12,850,019	6,424,739	-	(6,424,739)	12,850,019
NET ASSETS - END OF YEAR	<u>\$ 13,289,735</u>	<u>\$ 6,431,606</u>	<u>\$ -</u>	<u>\$ (6,431,606)</u>	<u>\$ 13,289,735</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

BETHESDA STATEMENT OF ACTIVITIES For the Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING PUBLIC SUPPORT			
Contributions and legacies	\$ 6,129,451	\$ -	\$ 6,129,451
Net assets released from restrictions - operations	<u>887,657</u>	<u>(887,657)</u>	<u>-</u>
Total Operating Public Support	<u>7,017,108</u>	<u>(887,657)</u>	<u>6,129,451</u>
OPERATING REVENUE			
Program service revenue	90,511,297	-	90,511,297
Investment income, net of fees	119,793	-	119,793
Retail operations income	6,738,540	-	6,738,540
Rental income	423,809	-	423,809
Impairment loss and gain/loss on sale of property and equipment	(341,178)	-	(341,178)
Change in value of split-interest annuities	(235,048)	-	(235,048)
Change in beneficial interest in subsidiaries	(19,669,052)	6,867	(19,662,185)
Other	<u>681,540</u>	<u>-</u>	<u>681,540</u>
Total Operating Revenue	<u>78,229,701</u>	<u>6,867</u>	<u>78,236,568</u>
Total Operating Public Support and Revenue	<u>85,246,809</u>	<u>(880,790)</u>	<u>84,366,019</u>
OPERATING EXPENSES			
Program expenses	106,333,499	-	106,333,499
Management and general expenses	20,461,447	-	20,461,447
Fundraising expenses	<u>3,756,155</u>	<u>-</u>	<u>3,756,155</u>
Total Operating Expenses	<u>130,551,101</u>	<u>-</u>	<u>130,551,101</u>
Change in Net Assets Before Non-Operating Activities	<u>(45,304,292)</u>	<u>(880,790)</u>	<u>(46,185,082)</u>
NON-OPERATING ACTIVITIES			
Net assets released from restrictions - property and equipment	138,406	(138,406)	-
Restricted contributions	-	1,438,141	1,438,141
Restricted investment income	-	20,771	20,771
Market adjustment for fixed income investments	-	-	-
Adjustment to unfunded pension plan liability	(14,713,227)	-	(14,713,227)
Transfer between entities	<u>24,075,000</u>	<u>-</u>	<u>24,075,000</u>
Total Non-Operating Activities	<u>9,500,179</u>	<u>1,320,506</u>	<u>10,820,685</u>
CHANGE IN NET ASSETS	<u>(35,804,113)</u>	<u>439,716</u>	<u>(35,364,397)</u>
NET ASSETS - BEGINNING OF YEAR	<u>128,582,803</u>	<u>12,850,019</u>	<u>141,432,822</u>
NET ASSETS - END OF YEAR	<u>\$ 92,778,690</u>	<u>\$ 13,289,735</u>	<u>\$ 106,068,425</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

FOUNDATION STATEMENT OF ACTIVITIES For the Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING PUBLIC SUPPORT			
Contributions and legacies	\$ 798,511	\$ -	\$ 798,511
OPERATING REVENUE			
Investment income, net of fees	2,681,923	-	2,681,923
Change in value of split-interest annuities	287,375	(12,693)	274,682
Other	42,395	-	42,395
Total Operating Revenue	3,011,693	(12,693)	2,999,000
Total Operating Public Support and Revenue	3,810,204	(12,693)	3,797,511
OPERATING EXPENSES			
Fundraising expenses	46,237	-	46,237
Change in Net Assets Before Non-Operating Activities	3,763,967	(12,693)	3,751,274
NON-OPERATING ACTIVITIES			
Restricted investment income	-	19,560	19,560
Market adjustment for fixed income investments	1,023,286	-	1,023,286
Transfer to Bethesda	(24,075,000)	-	(24,075,000)
Total Non-Operating Activities	(23,051,714)	19,560	(23,032,154)
CHANGE IN NET ASSETS	(19,287,747)	6,867	(19,280,880)
NET ASSETS - BEGINNING OF YEAR	110,290,206	6,424,739	116,714,945
NET ASSETS - END OF YEAR	\$ 91,002,459	\$ 6,431,606	\$ 97,434,065

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CORNERSTONE STATEMENT OF ACTIVITIES For the Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING PUBLIC SUPPORT			
Contributions and legacies	\$ 200	\$ -	\$ 200
OPERATING REVENUE			
Investment income, net of fees	2,667	-	2,667
OPERATING EXPENSES			
Program expenses	55,787	-	55,787
Management and general expenses	328,385	-	328,385
Total Operating Expenses	384,172	-	384,172
Change in Net Assets Before Non-Operating Activities	(381,305)	-	(381,305)
NON-OPERATING ACTIVITIES			
Transfer from Bethesda	2,597,000	-	2,597,000
Total Non-Operating Activities	2,597,000	-	2,597,000
CHANGE IN NET ASSETS	2,215,695	-	2,215,695
NET ASSETS - BEGINNING OF YEAR	-	-	-
NET ASSETS - END OF YEAR	\$ 2,215,695	\$ -	\$ 2,215,695

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES

For the Year Ended August 31, 2019

	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
PROGRAM EXPENSES					
Salaries	\$ 61,330,893	\$ -	\$ -	\$ -	\$ 61,330,893
Payroll taxes and benefits	13,586,283	-	-	-	13,586,283
Supplies	4,091,611	-	-	-	4,091,611
Repairs	2,220,598	-	-	-	2,220,598
Client professional and other services	4,639,435	-	-	-	4,639,435
Staff development	203,263	-	-	-	203,263
Legal, audit and other professional services	315,428	-	55,669	-	371,097
Other general outside services	3,512,926	-	18	-	3,512,944
Travel, meals, lodging and gasoline	1,622,458	-	-	-	1,622,458
Rent	3,070,370	-	-	-	3,070,370
Telephone and internet services	1,161,582	-	-	-	1,161,582
Electricity, natural gas, water and sewer	1,640,152	-	-	-	1,640,152
Property and liability insurance	1,960,349	-	-	-	1,960,349
Depreciation	4,883,145	-	-	-	4,883,145
Interest	145,123	-	-	-	145,123
Medicaid assessment fees	1,241,682	-	-	-	1,241,682
All other	708,201	-	100	-	708,301
Total Program Expenses	<u>\$ 106,333,499</u>	<u>\$ -</u>	<u>\$ 55,787</u>	<u>\$ -</u>	<u>\$ 106,389,286</u>
MANAGEMENT AND GENERAL EXPENSES					
Salaries	\$ 10,957,535	\$ -	\$ 45,001	\$ -	\$ 11,002,536
Payroll taxes and benefits	1,921,962	-	11,021	-	1,932,983
Supplies	226,945	-	959	-	227,904
Repairs	61,315	-	-	-	61,315
Client professional and other services	204	-	-	-	204
Staff development	1,180,294	-	-	-	1,180,294
Legal, audit and other professional services	2,181,723	-	255,366	-	2,437,089
Other general outside services	920,890	-	10,189	-	931,079
Travel, meals, lodging and gasoline	499,997	-	4,533	-	504,530
Rent	113,537	-	-	-	113,537
Telephone and internet services	190,650	-	487	-	191,137
Electricity, natural gas, water and sewer	193,656	-	-	-	193,656
Property and liability insurance	246,780	-	-	-	246,780
Depreciation	819,444	-	151	-	819,595
Interest	1,181,077	-	-	-	1,181,077
All other	(234,562)	-	678	-	(233,884)
Total Management and General Expenses	<u>\$ 20,461,447</u>	<u>\$ -</u>	<u>\$ 328,385</u>	<u>\$ -</u>	<u>\$ 20,789,832</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES (continued) For the Year Ended August 31, 2019

	<u>Bethesda</u>	<u>Foundation</u>	<u>Cornerstone</u>	<u>Eliminations</u>	<u>Consolidated</u>
FUNDRAISING EXPENSES					
Salaries	\$ 1,835,039	\$ -	\$ -	\$ -	\$ 1,835,039
Payroll taxes and benefits	306,447	-	-	-	306,447
Supplies	96,223	-	-	-	96,223
Staff development	31,780	-	-	-	31,780
Legal, audit and other professional services	155,680	45,879	-	-	201,559
Other general outside services	1,095,955	358	-	-	1,096,313
Travel, meals, lodging and gasoline	184,857	-	-	-	184,857
Telephone and internet services	15,913	-	-	-	15,913
Property and liability insurance	15,176	-	-	-	15,176
Depreciation	3,210	-	-	-	3,210
All other	15,875	-	-	-	15,875
Total Fundraising Expenses	<u>\$ 3,756,155</u>	<u>\$ 46,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,802,392</u>
TOTAL EXPENSES					
Salaries	\$ 74,123,467	\$ -	\$ 45,001	\$ -	\$ 74,168,468
Payroll taxes and benefits	15,814,692	-	11,021	-	15,825,713
Supplies	4,414,779	-	959	-	4,415,738
Repairs	2,281,913	-	-	-	2,281,913
Client professional and other services	4,639,639	-	-	-	4,639,639
Staff development	1,415,337	-	-	-	1,415,337
Legal, audit and other professional services	2,652,831	45,879	311,035	-	3,009,745
Other general outside services	5,529,771	358	10,207	-	5,540,336
Travel, meals, lodging and gasoline	2,307,312	-	4,533	-	2,311,845
Rent	3,183,907	-	-	-	3,183,907
Telephone and internet services	1,368,145	-	487	-	1,368,632
Electricity, natural gas, water and sewer	1,833,808	-	-	-	1,833,808
Property and liability insurance	2,222,305	-	-	-	2,222,305
Depreciation	5,705,799	-	151	-	5,705,950
Interest	1,326,200	-	-	-	1,326,200
Medicaid assessment fees	1,241,682	-	-	-	1,241,682
All other	489,514	-	778	-	490,292
Total Expenses	<u>\$ 130,551,101</u>	<u>\$ 46,237</u>	<u>\$ 384,172</u>	<u>\$ -</u>	<u>\$ 130,981,510</u>