

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

Watertown, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2012 and 2011

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Bethesda Lutheran Communities, Inc. and Affiliates (the "Organization") as of August 31, 2012 and 2011, and the related consolidated statements of activities, cash flows and functional operating expenses for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to previously present fairly, in all material respects, the financial position of the Organization as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information identified in the table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating 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.

Baker Tilly Vinchow Krause, LLP

Milwaukee, Wisconsin
October 31, 2012

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As of August 31, 2012 and 2011

	ASSETS	
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,172,740	\$ 10,313,128
Accounts receivable:		
Client programs	10,343,524	8,957,772
Interest and other	1,126,378	962,059
Legacies	1,260,660	439,660
Pledges	230,301	376,029
Supply inventories	383,530	226,501
Prepaid expenses and other current assets	1,158,089	626,400
Total Current Assets	24,675,222	21,901,549
ASSETS WHOSE USE IS LIMITED OR RESTRICTED		
Funds held on behalf of clients	914,994	621,788
Escrow deposits	1,206,642	1,053,964
Other donor restricted assets	33,171	32,461
Total Assets Whose Use is Limited or Restricted	2,154,807	1,708,213
OTHER ASSETS		
Investments	160,377,124	162,725,866
Assets held relating to split-interest agreements and trusts	18,692,560	18,264,361
Long-term portion of pledges receivable	2,500	148,939
Notes receivable and other assets	44,061	47,148
Total Other Assets	179,116,245	181,186,314
PROPERTY AND EQUIPMENT		
	81,533,977	84,882,143
TOTAL ASSETS	\$ 287,480,251	\$ 289,678,219
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,767,714	\$ 2,634,590
Salaries, wages, related withholdings and fringe benefits	11,411,615	12,574,427
Line of credit	6,500,000	2,000,000
Other current liabilities	161,996	152,765
Total Current Liabilities	21,841,325	17,361,782
LONG-TERM LIABILITIES		
Due to beneficiaries and others under split-interest agreements and trusts	13,439,339	13,919,759
Mortgage notes payable	2,387,901	2,503,386
Pension plan liability	34,266,455	12,943,470
Funds held on behalf of clients	850,802	592,458
Other long-term liabilities	268,104	258,174
Total Long-Term Liabilities	51,212,601	30,217,247
Total Liabilities	73,053,926	47,579,029
NET ASSETS		
Unrestricted	198,816,825	226,509,375
Temporarily restricted	7,648,656	7,510,483
Permanently restricted	7,960,844	8,079,332
Total Net Assets	214,426,325	242,099,190
TOTAL LIABILITIES AND NET ASSETS	\$ 287,480,251	\$ 289,678,219

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 9,601,001	\$ -	\$ -	\$ 9,601,001
Net assets released from restrictions - operations	<u>1,327,342</u>	<u>(1,327,342)</u>	-	-
Total Operating Public Support	<u>10,928,343</u>	<u>(1,327,342)</u>	-	<u>9,601,001</u>
OPERATING REVENUE				
Program service revenue	101,771,298	-	-	101,771,298
Investment income	6,994,495	-	-	6,994,495
Retail operations income	5,845,452	-	-	5,845,452
Rental income	244,131	-	-	244,131
Gain on sale of property and equipment	336,151	-	-	336,151
Change in value of split-interest annuities	521,459	(18,969)	-	502,490
Other	<u>992,241</u>	<u>-</u>	<u>-</u>	<u>992,241</u>
Total Operating Revenue	<u>116,705,227</u>	<u>(18,969)</u>	-	<u>116,686,258</u>
Total Operating Public Support and Revenue	<u>127,633,570</u>	<u>(1,346,311)</u>	-	<u>126,287,259</u>
OPERATING EXPENSES				
Program expenses	108,797,604	-	-	108,797,604
Management and general expenses	24,842,243	-	-	24,842,243
Fundraising expenses	<u>2,467,698</u>	<u>-</u>	<u>-</u>	<u>2,467,698</u>
Total Operating Expenses	<u>136,107,545</u>	<u>-</u>	<u>-</u>	<u>136,107,545</u>
Change in Net Assets Before Non-Operating Activities	<u>(8,473,975)</u>	<u>(1,346,311)</u>	<u>-</u>	<u>(9,820,286)</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	133,011	(133,011)	-	-
Restricted contributions	(711)	1,590,671	(132,072)	1,457,888
Restricted investment income	-	26,824	13,584	40,408
Market adjustment for fixed income investments	(328,589)	-	-	(328,589)
Adjustment to unfunded pension plan liability	<u>(19,022,286)</u>	<u>-</u>	<u>-</u>	<u>(19,022,286)</u>
Total Non-Operating Activities	<u>(19,218,575)</u>	<u>1,484,484</u>	<u>(118,488)</u>	<u>(17,852,579)</u>
CHANGE IN NET ASSETS	(27,692,550)	138,173	(118,488)	(27,672,865)
NET ASSETS - BEGINNING OF YEAR	<u>226,509,375</u>	<u>7,510,483</u>	<u>8,079,332</u>	<u>242,099,190</u>
NET ASSETS - END OF YEAR	<u>\$ 198,816,825</u>	<u>\$ 7,648,656</u>	<u>\$ 7,960,844</u>	<u>\$ 214,426,325</u>

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 12,071,269	\$ -	\$ -	\$ 12,071,269
Net assets released from restrictions - operations	<u>976,998</u>	<u>(976,998)</u>	<u>-</u>	<u>-</u>
Total Operating Public Support	<u>13,048,267</u>	<u>(976,998)</u>	<u>-</u>	<u>12,071,269</u>
OPERATING REVENUE				
Program service revenue	100,911,486	-	-	100,911,486
Investment income	17,837,447	-	-	17,837,447
Retail operations income	5,141,433	-	-	5,141,433
Rental income	270,579	-	-	270,579
Loss on disposal of property and equipment	(238,919)	-	-	(238,919)
Change in value of split-interest annuities	694,763	(19,600)	-	675,163
Other	<u>1,400,784</u>	<u>-</u>	<u>-</u>	<u>1,400,784</u>
Total Operating Revenue	<u>126,017,573</u>	<u>(19,600)</u>	<u>-</u>	<u>125,997,973</u>
Total Operating Public Support and Revenue	<u>139,065,840</u>	<u>(996,598)</u>	<u>-</u>	<u>138,069,242</u>
OPERATING EXPENSES				
Program expenses	109,950,227	-	-	109,950,227
Management and general expenses	24,353,372	-	-	24,353,372
Fundraising expenses	<u>2,381,327</u>	<u>-</u>	<u>-</u>	<u>2,381,327</u>
Total Operating Expenses	<u>136,684,926</u>	<u>-</u>	<u>-</u>	<u>136,684,926</u>
Change in Net Assets Before Non-Operating Activities	<u>2,380,914</u>	<u>(996,598)</u>	<u>-</u>	<u>1,384,316</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	399,187	(399,187)	-	-
Restricted contributions	(956)	1,164,518	(24,616)	1,138,946
Restricted investment income	-	35,841	8,952	44,793
Market adjustment for fixed income investments	(118,295)	-	-	(118,295)
Adjustment to unfunded pension plan liability	<u>6,076,637</u>	<u>-</u>	<u>-</u>	<u>6,076,637</u>
Total Non-Operating Activities	<u>6,356,573</u>	<u>801,172</u>	<u>(15,664)</u>	<u>7,142,081</u>
CHANGE IN NET ASSETS	8,737,487	(195,426)	(15,664)	8,526,397
NET ASSETS - BEGINNING OF YEAR	<u>217,771,888</u>	<u>7,705,909</u>	<u>8,094,996</u>	<u>233,572,793</u>
NET ASSETS - END OF YEAR	<u>\$ 226,509,375</u>	<u>\$ 7,510,483</u>	<u>\$ 8,079,332</u>	<u>\$ 242,099,190</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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (27,672,865)	\$ 8,526,397
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Bad debt expense	281,466	403,422
Net unrealized gains on investments	(3,096,287)	(7,936,865)
Amortization	9,930	9,930
Depreciation	7,236,251	7,457,759
(Gain) loss on sale of property and equipment	(336,151)	238,919
Net realized gain on investments	(956,277)	(7,601,550)
Net change in split interest agreements	(940,383)	(642,388)
Restricted contributions	(1,457,888)	(1,138,946)
Restricted investment income, net	(40,408)	(44,793)
Decrease (increase) in beneficial interest in trusts	31,054	(111,251)
Changes in assets and liabilities		
Client programs receivable	(1,667,218)	2,674,689
Interest and other receivable	(164,319)	797,182
Legacies receivable	(821,000)	2,569,132
Supply inventories	(157,029)	155,110
Prepaid expenses and other current assets	(531,689)	3,314
Notes receivable and other assets	3,087	15,539
Funds held on behalf of clients	(34,862)	241,683
Accounts payable	1,133,124	(470,705)
Salaries, wages and related withholdings and fringe benefits	20,160,173	(3,274,316)
Other current liabilities	(519)	2,353
Net Cash Flows from Operating Activities	(9,021,810)	1,874,615
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,398,775)	(8,083,538)
Proceeds from sale of property and equipment	846,841	2,946,178
Purchase of investments	(58,139,419)	(65,699,801)
Proceeds from sale of investments	64,540,725	68,016,214
Net change in escrow deposits	(152,678)	(109,248)
Net Cash Flows from Investing Activities	2,696,694	(2,930,195)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	4,500,000	2,000,000
Principal payments on long-term debt	(105,735)	(97,587)
Restricted investment income, net	40,408	44,793
Restricted contributions	1,750,055	1,471,677
Net Cash Flows from Financing Activities	6,184,728	3,418,883
Net Change in Cash and Cash Equivalents	(140,388)	2,363,303
CASH AND CASH EQUIVALENTS - Beginning of Year	10,313,128	7,949,825
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,172,740	\$ 10,313,128
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 335,954	\$ 239,338

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, 2012

	Program	Management and General	Fundraising	Total
Salaries	\$ 59,982,008	\$ 11,388,029	\$ 1,269,273	\$ 72,639,310
Fringe benefits	19,940,443	3,601,808	346,230	23,888,481
Supplies	4,568,052	1,009,865	222,923	5,800,840
Repairs	1,732,078	190,022	1,491	1,923,591
Client professional and other services	4,078,783	51,839	78,892	4,209,514
Staff development	92,205	845,608	10,061	947,874
Legal, audit and other professional services	206,803	843,223	207,582	1,257,608
Other general outside services	1,646,586	1,369,246	84,905	3,100,737
Travel, meals, lodging and gasoline	1,752,183	678,725	190,052	2,620,960
Rent	1,422,993	2,152,748	300	3,576,041
Telephone and internet services	761,476	448,720	14,762	1,224,958
Electricity, natural gas, water and sewer	2,274,849	491,713	3,086	2,769,648
Property and liability insurance	1,302,405	208,264	11,030	1,521,699
Depreciation and amortization	6,167,104	1,054,946	24,131	7,246,181
Interest	287,658	47,503	-	335,161
Medicaid assessment fees	1,756,766	-	-	1,756,766
All other	825,212	459,984	2,980	1,288,176
Total Expenses	\$ 108,797,604	\$ 24,842,243	\$ 2,467,698	\$ 136,107,545

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, 2011

	Program	Management and General	Fundraising	Total
Salaries	\$ 61,695,379	\$ 11,666,518	\$ 1,155,530	\$ 74,517,427
Fringe benefits	19,129,718	3,512,952	311,453	22,954,123
Supplies	4,506,194	782,734	274,395	5,563,323
Repairs	1,587,898	197,619	35	1,785,552
Client professional and other services	4,583,930	173,915	80,201	4,838,046
Staff development	71,845	817,803	6,390	896,038
Legal, audit, and other professional services	301,978	1,035,163	146,169	1,483,310
Other general outside services	1,616,995	1,209,427	179,938	3,006,360
Travel, meals, lodging and gasoline	1,554,173	628,673	153,384	2,336,230
Rent	1,408,199	2,033,493	3,665	3,445,357
Telephone and internet services	783,471	474,745	12,704	1,270,920
Electricity, natural gas, water and sewer	2,252,835	547,941	2,978	2,803,754
Property and liability insurance	1,171,790	264,171	11,748	1,447,709
Depreciation and amortization	6,635,408	793,246	39,035	7,467,689
Interest	239,131	58,506	-	297,637
Medicaid assessment fees	1,649,965	-	-	1,649,965
All other	761,318	156,466	3,702	921,486
Total Expenses	\$ 109,950,227	\$ 24,353,372	\$ 2,381,327	\$ 136,684,926

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, 2012 and 2011

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, "Bethesda") and Bethesda Lutheran Foundation, Inc. ("Foundation") (all entities collectively referred to as the "Organization") with intercompany accounts eliminated. The nine U.S. Department of Housing and Urban Development ("HUD") projects operate under the Rules and Regulations of HUD. Bethesda Lutheran Communities, Inc. is the sole voting member of the Village and the Foundation. The Organization operates residential facilities for the benefit of developmentally disabled persons.

Basis of Presentation

The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the *Audit and Accounting Guide (Not-for-Profit Entities)* published by the American Institute of Certified Public Accountants as management feels it best reflects the operations of the Organization.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three 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

The Organization provides an allowance for doubtful accounts for client programs receivable equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts deemed uncollectible are charged against revenue, if related to the current year, and charged to bad debt expense, if related to prior years. Client programs receivable are shown net of an allowance for doubtful accounts of \$190,000 as of August 31, 2012 and 2011.

Pledges Receivable

Pledges made to the Organization are recorded in the year the pledge is received. Amounts that are expected to be collected after one year have been discounted at 6% and are reflected in the consolidated financial statements at their net present value which approximates fair value. An allowance for pledges receivable is determined based on experience. No allowance for doubtful accounts is considered necessary as of August 31, 2012 and 2011.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Legacies

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, 2012 and 2011.

Legacies receivable of \$1,260,660 and \$439,660 as of August 31, 2012 and 2011, 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. Inventory used in the print shop is stated at lower of cost or market, with cost determined based on average cost.

Funds Held on Behalf of Clients

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

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). The Organization records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

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

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

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

Donated property and equipment are recorded as increases in unrestricted net assets at their estimated fair value as of the date received. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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

The Organization has recorded a liability of \$268,104 and \$258,174 for asbestos clean-up costs as of August 31, 2012 and 2011, respectively, and it is presented as other long-term liabilities in the consolidated statements of financial position.

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. There have been no such losses during the years ending August 31, 2012 and 2011.

Assets Held Relating to Split-Interest Agreements and Trusts

The Organization is the trustee of various split-interest agreements and trusts and the assets held are recorded at fair value and are reported on 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. A discount rate of 4.5% and 5.5% was used to project the Unitrusts, Annuity Trusts, and Pooled Income Funds liability as of August 31, 2012 and 2011, respectively. 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, 2012 and 2011

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:

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

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

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

Tax-Exempt Status

The Organization has received notification that each entity qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, each entity is not subject to federal or state income taxes.

Contributions

Contributions, including pledges receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The gifts are reported as either temporarily or permanently restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification or law that income and gains on donated funds are restricted, such income and gains are reported as unrestricted income.

Program Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization. Payment arrangements include reimbursement 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.

Fair Value of Financial Instruments

The carrying amount of the actuarial liability for due to beneficiaries and others under split-interest agreements and trusts is based on life expectancies and discount rates. The liability represents the present value of expected distributions. This liability approximates fair value.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

The fair value of the Organizations's variable rate line of credit is estimated based on current rates for similar variable rate debt with the same remaining maturities.

The fixed rate mortgage notes payable are stated at cost. To determine the fair value of the fixed rate mortgage notes payable, cash flows are evaluated and then discounted using the appropriate market rates for the applicable maturities.

The carrying and fair value for investments and other financial instruments measured at fair value on a recurring basis are included in Note 2.

Operations

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

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

Expense Allocation

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

Reclassification

For comparability, certain 2011 amounts have been reclassified to conform with classifications adopted in 2012. The reclassifications have no effect on reported amount of net assets or change in net assets.

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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Subsequent Events

The Organization has evaluated subsequent events through October 31, 2012, which is the date that the consolidated financial statements were approved and available to be issued.

NOTE 2 - 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, 2012 and 2011

NOTE 2 - Fair Value Measurements (continued)

The carrying and estimated fair values of the Organization's significant financial instruments are as follows:

	2012		2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Investments	\$ 160,377,124	\$ 160,377,124	\$ 162,725,866	\$ 162,725,866
Assets held relating to split-interest agreements and trusts	\$ 18,692,560	\$ 18,692,560	\$ 18,264,361	\$ 18,264,361
Financial liabilities:				
Due to beneficiaries and others under split-interest agreements and trusts	\$ 13,439,339	\$ 13,439,339	\$ 13,919,759	\$ 13,919,759
Fixed rate mortgage notes	\$ 2,503,386	\$ 3,481,572	\$ 2,609,121	\$ 3,474,397
Line of credit	\$ 6,500,000	\$ 6,500,000	\$ 2,000,000	\$ 2,000,000

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

	August 31, 2012			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds - balanced	\$ 2,169,770	\$ 2,169,770	\$ -	\$ -
Common and preferred stock	80,013,207	80,013,207	-	-
Church extension funds	1,964,985	-	1,964,985	-
Fixed income securities	42,124,986	30,534,331	11,590,655	-
Hedge funds	34,093,235	10,185,972	-	23,907,263
Money market funds	10,941	-	10,941	-
Total	<u>\$ 160,377,124</u>	<u>\$ 122,903,280</u>	<u>\$ 13,566,581</u>	<u>\$ 23,907,263</u>
Assets held relating to split-interest agreements and trusts				
Fixed income mutual funds	\$ 4,117,845	\$ 4,117,845	\$ -	\$ -
Common stocks	1,796,447	1,796,447	-	-
Equity mutual funds	8,538,985	8,538,985	-	-
Beneficial interest in assets held by others	4,239,283	-	-	4,239,283
Total	<u>\$ 18,692,560</u>	<u>\$ 14,453,277</u>	<u>\$ -</u>	<u>\$ 4,239,283</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements (continued)

	August 31, 2011			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Common and preferred stock	\$ 73,642,290	\$ 73,642,290	\$ -	\$ -
Church extension funds	5,723,000	-	5,723,000	-
Fixed income securities	48,351,093	36,936,439	11,414,654	-
Hedge funds	34,042,840	9,990,442	-	24,052,398
Money market funds	966,643	-	966,643	-
Total	\$ 162,725,866	\$ 120,569,171	\$ 18,104,297	\$ 24,052,398
Assets held relating to split-interest agreements and trusts				
Fixed income mutual funds	\$ 4,140,805	\$ 4,140,805	\$ -	\$ -
Common stock	1,679,270	1,679,270	-	-
Equity mutual funds	8,173,949	8,173,949	-	-
Beneficial interest in assets held by others	4,270,337	-	-	4,270,337
Total	\$ 18,264,361	\$ 13,994,024	\$ -	\$ 4,270,337

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, certain fixed income securities, and certain hedge funds - 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, certain fixed income securities 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.

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

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 2 - Fair Value Measurements (continued)

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, 2010	\$ 20,251,744	\$ 4,159,086
Net gains (realized and unrealized) included in change in net assets	324,662	-
Purchases and sales, net	3,475,992	111,251
Balance, August 31, 2011	24,052,398	4,270,337
Net losses (realized and unrealized) included in change in net assets	(481,067)	(31,054)
Purchases	8,647,255	-
Sales	(8,311,323)	-
Balance, August 31, 2012	\$ 23,907,263	\$ 4,239,283
Net unrealized losses included in change in net assets relating to assets held at August 31, 2012	\$ (285,952)	\$ (31,054)
Net unrealized gains included in change in net assets relating to assets held at August 31, 2011	\$ 391,830	\$ -

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.

The Organization invests in eight level 3 hedge funds; 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.

NOTE 3 - Pledges Receivable

Pledges receivable as of August 31 consist of the following:

	2012	2011
Less than one year	\$ 230,301	\$ 376,029
One to five years	2,500	158,017
Total Pledges Receivable	232,801	534,046
Less: Discount to present value	-	(9,078)
Net Pledges Receivable	\$ 232,801	\$ 524,968

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 4 - Escrow Deposits

Monthly escrow deposits are made as required by HUD for the reserve for replacements and are maintained in an interest bearing account separate from the operating account of the HUD entities. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this escrow reverts to the benefit of the project.

HUD requires the HUD projects to remit all cash remaining, if any, after the establishment of all required escrows and reserves and the payment of all expenses and allowable disbursements to a residual receipts fund on an annual basis. Deposits are made within 90 days after year-end and are maintained in an interest bearing account separate from the operating account of the HUD projects. Withdrawals may be made with permission of HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this fund reverts to the benefit of HUD.

NOTE 5 - Investments

Following is a summary of investments as of August 31:

	2012	2011
Common and preferred stocks		
Large cap value	\$ 15,559,656	\$ 17,841,399
Large cap growth	25,294,762	19,450,375
International	18,691,867	18,833,423
Small/Mid cap value	9,943,374	9,101,858
Small cap blend	10,523,548	8,415,235
Common and preferred stock total	80,013,207	73,642,290
Fixed income securities		
Fixed income mutual funds	1,310,691	-
Domestic corp bonds	17,774,943	25,528,389
Global	23,039,352	22,822,704
Fixed income securities total	42,124,986	48,351,093
Hedge funds		
Fund of funds	17,455,904	16,880,151
Managed futures	6,451,359	7,172,247
Enhanced fixed income	10,185,972	9,990,442
Hedge funds total	34,093,235	34,042,840
Mutual funds - Balanced	2,169,770	-
Church extension funds	1,964,985	5,723,000
Money market funds	10,941	966,643
 Total	 \$ 160,377,124	 \$ 162,725,866

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 5 - Investments (continued)

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

	2012	2011
Interest and dividends	\$ 3,452,134	\$ 3,151,054
Net realized gains	956,277	7,601,550
Net unrealized gains	3,096,287	7,936,865
Less: fees	(798,384)	(925,524)
Total	\$ 6,706,314	\$ 17,763,945

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

NOTE 6 - Property and Equipment

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

	Depreciable Lives	2012	2011
Land and land improvements	5-40 yrs.	\$ 20,532,126	\$ 20,499,085
Buildings, improvements and capitalized maintenance	5-40 yrs.	104,984,833	104,882,266
Fixed and moveable equipment	3-20 yrs.	38,390,391	36,502,450
Construction in progress	N/A	620,425	664,061
Total Property and Equipment		164,527,775	162,547,862
Less: Accumulated depreciation		(82,993,798)	(77,665,719)
Net Property and Equipment		\$ 81,533,977	\$ 84,882,143

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 7 - Pension Plan

The Organization has a noncontributory defined benefit pension plan covering substantially all of the Organization's employees who have completed one year of service (as defined) and are 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 pension plan is August 31.

Effective December 31, 2012 the Organization will freeze the defined benefit plan, which will prevent additional accumulation of benefits for current employees or new employees to join the plan.

	2012	2011
Change in Projected Benefit Obligation		
Projected Benefit Obligation at beginning of year	\$ 67,976,660	\$ 64,287,148
Service cost	4,538,308	4,729,923
Interest cost	3,669,304	3,484,230
Actuarial (gain) loss	19,888,743	(2,095,055)
Benefits paid	<u>(2,719,809)</u>	<u>(2,429,586)</u>
Projected Benefit Obligation at end of year	<u>\$ 93,353,206</u>	<u>\$ 67,976,660</u>

	2012	2011
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 49,319,830	\$ 42,296,020
Employer contribution	5,713,360	4,372,908
Actual return on plan assets	3,073,370	5,080,488
Benefits paid	<u>(2,719,809)</u>	<u>(2,429,586)</u>
Fair value of plan assets at end of year	<u>\$ 55,386,751</u>	<u>\$ 49,319,830</u>
Funded status of the plan	<u>\$ (37,966,455)</u>	<u>\$ (18,656,830)</u>

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

	2012	2011
Accrued benefit cost - included in salaries, wages, related withholdings and fringe benefits	\$ (3,700,000)	\$ (5,713,360)
Pension plan liability	<u>(34,266,455)</u>	<u>(12,943,470)</u>
Total	<u>\$ (37,966,455)</u>	<u>\$ (18,656,830)</u>

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

	2012	2011
Service cost	\$ 4,538,308	\$ 4,729,923
Interest cost	3,669,304	3,484,230
Expected return on plan assets	(3,806,834)	(3,251,888)
Amortization of net loss	<u>1,599,918</u>	<u>2,152,994</u>
Operating portion of pension expense	<u>\$ 6,000,696</u>	<u>\$ 7,115,259</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 7 - Pension Plan (continued)

Components of the non-operating portion of pension 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:

	2012	2011
Unrecognized net (gain) loss	\$ 19,022,286	\$ (6,076,637)

The accumulated benefit obligation for this defined benefit pension plan was \$84,245,346 and \$62,776,061 at August 31, 2012 and 2011, respectively.

Expected components of subsequent year's net periodic post retirement benefit cost	2012	2011
Service cost	\$ 6,121,465	\$ 4,538,308
Interest cost	3,676,473	3,669,304
Expected return on assets	(4,184,652)	(3,806,834)
Amortization of net loss from earlier periods	3,746,052	1,599,918
Total net periodic postretirement benefit cost	\$ 9,359,338	\$ 6,000,696

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

	2012	2011
Weighted average discount rate	5.5%	5.5%
Increase in future compensation levels	3.0%	3.0%
Expected long-term rate of return on assets	7.5%	7.5%

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

	2012	2011
Weighted average discount rate	4.0%	5.5%
Increase in future compensation levels	3.0%	3.0%

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

	August 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 28,283,676	\$ 28,283,676	\$ -	\$ -
Fixed income mutual funds	13,448,166	13,448,166	-	-
Money market funds	113,695	-	113,695	-
Hedge funds	13,541,214	4,379,380	-	9,161,834
Total assets	\$ 55,386,751	\$ 46,111,222	\$ 113,695	\$ 9,161,834

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 7 - Pension Plan (continued)

	August 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 23,656,372	\$ 23,656,372	\$ -	\$ -
Fixed income mutual funds	12,620,337	12,620,337	-	-
Money market funds	125,419	-	125,419	-
Hedge funds	<u>12,917,702</u>	<u>3,798,027</u>	-	<u>9,119,675</u>
Total assets	<u>\$ 49,319,830</u>	<u>\$ 40,074,736</u>	<u>\$ 125,419</u>	<u>\$ 9,119,675</u>

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

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

	Hedge Funds
Balance, August 31, 2010	\$ 7,893,013
Net gains (realized and unrealized)	59,252
Purchases and sales, net	<u>1,167,410</u>
Balance, August 31, 2011	9,119,675
Net gains (realized and unrealized)	120,037
Purchases	3,523,904
Sales	<u>(3,601,782)</u>
Balance, August 31, 2012	<u>\$ 9,161,834</u>

The Organization has delegated authority for the administration and investments of the pension 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 maximum of 70% in equities, at least 15% invested in fixed income securities, and a maximum of 25% in alternative investments. Management determined the expected rate of return on assets based on historical performance and investment portfolio allocations.

Management is not able to appropriately determine the exact amount that will be contributed to this pension plan during the fiscal year ending August 31, 2013. 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 \$3.7 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, 2012 and 2011

NOTE 7 - Pension Plan (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2013	\$ 2,661,030
2014	2,880,918
2015	3,283,711
2016	3,505,942
2017	3,736,774
2018-2022	<u>23,117,193</u>
Total	<u>\$ 39,185,568</u>

NOTE 8 - Assets Held 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 in 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 and becomes available for the operation of the Organization unless another beneficiary is specified.

There is an irrevocable trust held by a third party that stipulates that the trust make payments to a beneficiary. Upon the death of beneficiary, fifty percent of the remaining value of the trust becomes the property of the Organization. The beneficial interest in the trust is calculated using a 6% discount rate.

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 - Line of Credit

During 2012 the Organization renewed its line of credit for \$10,600,000 with M&I Bank with a variable interest rate of LIBOR plus 2.00% (at August 31, 2012 the interest rate was 2.24%). The line of credit is secured by all machinery, equipment, fixtures, furnishings, and appliances located at the Organization's headquarters in Watertown, Wisconsin. The amount borrowed on the line of credit was \$6,500,000 and \$2,000,000 at August 31, 2012 and 2011, respectively. Interest expense on the line of credit was \$110,392 and \$58,506 for the years ended August 31, 2012 and 2011, respectively. The agreement will expire on May 18, 2013.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 10 - Long-Term Debt

Long-term debt consists of the following at August 31:

	<u>2012</u>	<u>2011</u>
Mortgage note payable to HUD with monthly payments of \$4,334 including interest at 9.25%, due June 30, 2023, secured by a mortgage on the Organization's land, buildings, and equipment.	\$ 355,011	\$ 373,252
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.	183,686	187,801
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.	16,128	18,501
Mortgages payable to HUD, secured by real property, payable in monthly installments ranging from \$1,140 to \$12,803 including interest ranging from 8.375% to 9.25%, due April 2022 through November 2031.	<u>1,948,561</u>	<u>2,029,567</u>
Totals	2,503,386	2,609,121
Less: Current portion	<u>(115,485)</u>	<u>(105,735)</u>
Long-Term Portion	<u>\$ 2,387,901</u>	<u>\$ 2,503,386</u>

Included in other current liabilities is \$115,485 and \$105,735 of the current portion of long-term debt as of August 31, 2012 and 2011, respectively. Interest expense on debt for 2012 and 2011 was \$224,578 and \$239,131, respectively.

Principal requirements on this long-term debt for years ending after August 31, 2012 are as follows:

2013	\$ 115,485
2014	126,158
2015	137,840
2016	150,626
2017	164,621
Thereafter	<u>1,808,656</u>
Total	<u>\$ 2,503,386</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 \$1,500,000 as of August 31, 2012 and 2011.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 11 - Self-Insurance (continued)

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.

NOTE 12 - Net Assets

Unrestricted net assets at year end are composed of:

	<u>2012</u>	<u>2011</u>
Unrestricted reserves	<u>\$ 198,816,825</u>	<u>\$ 226,509,375</u>

Temporarily restricted net assets at year end are composed of:

	<u>2012</u>	<u>2011</u>
Time restricted	\$ 1,454,798	\$ 1,473,767
Purpose restricted	3,726,403	3,538,207
Irrevocable trust held by a third party	253,482	162,285
Held by Lutheran Church Extension Fund - Missouri Synod	<u>2,213,973</u>	<u>2,336,224</u>
Totals	<u>\$ 7,648,656</u>	<u>\$ 7,510,483</u>

Permanently restricted net assets at year end are composed of:

	<u>2012</u>	<u>2011</u>
Restricted for endowment	\$ 6,189,016	\$ 6,307,504
Held by Good Shepherd Fund	<u>1,771,828</u>	<u>1,771,828</u>
Totals	<u>\$ 7,960,844</u>	<u>\$ 8,079,332</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 portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

NOTE 13 - Endowment (continued)

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

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

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

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

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 1,233,087	\$ 6,189,016	\$ 7,422,103
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 1,215,234	\$ 6,307,504	\$ 7,522,738

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 13 - Endowment (continued)

Changes in endowment net assets for the year ended August 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,215,234	\$ 6,307,504	\$ 7,522,738
Investment income	-	916,073	13,584	929,657
Contributions	-	-	5,882	5,882
Amounts appropriated for expenditure	-	(898,220)	-	(898,220)
Other changes:				
Uncollectible pledges	-	-	(137,954)	(137,954)
Endowment net assets, end of year	\$ -	\$ 1,233,087	\$ 6,189,016	\$ 7,422,103

Changes in endowment net assets for the year ended August 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (82,025)	\$ 1,236,365	\$ 6,323,168	\$ 7,477,508
Investment income	82,025	649,809	8,952	740,786
Contributions	-	-	130,417	130,417
Amounts appropriated for expenditure	-	(670,940)	-	(670,940)
Other changes:				
Uncollectible pledges	-	-	(155,033)	(155,033)
Endowment net assets, end of year	\$ -	\$ 1,215,234	\$ 6,307,504	\$ 7,522,738

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, deficiencies of this nature that are reported in unrestricted net assets were \$0 as of August 31, 2012 and 2011. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Organization distributes all income to Bethesda from the endowment funds subject to any restrictions from the donors on an annual basis. For ease of tracking, any deficiencies are reflected in unrestricted net assets instead of netting against temporarily restricted net assets.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2012 and 2011

NOTE 14 - Operating Leases

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

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

2013	\$ 2,802,839
2014	1,662,136
2015	1,252,481
2016	939,154
2017	762,069
Thereafter	<u>2,235,164</u>
	<u>\$ 9,653,843</u>

Rent expense on these operating leases was \$3,182,173 and \$3,171,279 for the years ended August 31, 2012 and 2011, respectively.

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 held relating to split-interest agreements and trusts in the consolidated statements of financial position in the amount of \$14,453,277 and \$13,994,024 as of August 31, 2012 and 2011, respectively. The amount due to beneficiaries as of August 31, 2012 and 2011 were \$7,215,153 and \$8,454,904, respectively. In addition there are amounts due to other beneficiaries of \$1,685,156 and \$663,544 as of August 31, 2012 and 2011, 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 \$5,506,401 and \$6,719,424 as of August 31, 2012 and 2011, respectively. The amount due to beneficiaries relating to gift annuities was \$4,539,030 and \$4,801,311 as of August 31, 2012 and 2011, 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 becomes available for supplemental care of specified Bethesda clients (trust beneficiary). The trust assets are not recognized by the Foundation until the death of the trust beneficiary, or termination of the trust, and then the trust assets are reflected in the Foundation's unrestricted net assets.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2012 and 2011

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 it relates remain available for low-income developmentally disabled persons in accordance with the appropriate regulations until dates ranging from November 2034 to February 2035. The capital advances are recorded as unrestricted net assets on the accompanying consolidated statements of financial position.

NOTE 17 - 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 - Commitments and Contingencies

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.

NOTE 19 - Concentrations

The Organization maintains interest bearing 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, 2012 and 2011 were from governmental third-party payors.

The Organization is a provider under the Medicaid program in various states. Approximately 28% of program service revenue was generated from services to Medicaid beneficiaries in 2012 and 2011. Medicaid reimbursement methodology varies from state to state. The Organization has receivables of \$4,271,021 and \$2,741,405 due from Medicaid at August 31, 2012 and 2011, respectively.

SUPPLEMENTAL INFORMATION

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2012

	ASSETS			
	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 4,185,730	\$ 5,987,010	\$ -	\$ 10,172,740
Accounts receivable:				
Client programs	10,343,524	-	-	10,343,524
Interest and other	813,973	312,405	-	1,126,378
Legacies	1,260,660	-	-	1,260,660
Pledges	229,501	800	-	230,301
Intercompany	1,665,506	-	(1,665,506)	-
Supply inventories	383,530	-	-	383,530
Prepaid expenses and other current assets	<u>1,158,089</u>	<u>-</u>	<u>-</u>	<u>1,158,089</u>
Total Current Assets	<u>20,040,513</u>	<u>6,300,215</u>	<u>(1,665,506)</u>	<u>24,675,222</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED				
Equity in net assets of Foundation	168,124,924	-	(168,124,924)	-
Funds held on behalf of clients	914,994	-	-	914,994
Escrow deposits	1,206,642	-	-	1,206,642
Other donor restricted assets	<u>33,171</u>	<u>-</u>	<u>-</u>	<u>33,171</u>
Total Assets Whose Use is Limited or Restricted	<u>170,279,731</u>	<u>-</u>	<u>(168,124,924)</u>	<u>2,154,807</u>
OTHER ASSETS				
Investments	3,325,691	157,051,433	-	160,377,124
Assets held relating to split-interest agreements and trusts	4,329,667	14,362,893	-	18,692,560
Long-term portion of pledges receivable	2,500	-	-	2,500
Notes receivable and other assets	<u>44,061</u>	<u>-</u>	<u>-</u>	<u>44,061</u>
Total Other Assets	<u>7,701,919</u>	<u>171,414,326</u>	<u>-</u>	<u>179,116,245</u>
PROPERTY AND EQUIPMENT	<u>80,176,463</u>	<u>1,357,514</u>	<u>-</u>	<u>81,533,977</u>
TOTAL ASSETS	<u>\$ 278,198,626</u>	<u>\$ 179,072,055</u>	<u>\$ (169,790,430)</u>	<u>\$ 287,480,251</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
As of August 31, 2012

LIABILITIES AND NET ASSETS

	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES				
Accounts payable	\$ 3,725,365	\$ 42,349	\$ -	\$ 3,767,714
Intercompany accounts payable	1,373,551	291,955	(1,665,506)	-
Salaries, wages, related withholdings and fringe benefits	11,411,615	-	-	11,411,615
Line of credit	6,500,000	-	-	6,500,000
Other current liabilities	161,996	-	-	161,996
Total Current Liabilities	<u>23,172,527</u>	<u>334,304</u>	<u>(1,665,506)</u>	<u>21,841,325</u>
LONG-TERM LIABILITIES				
Due to beneficiaries and others under split-interest agreements and trusts	2,826,512	10,612,827	-	13,439,339
Mortgage notes payable	2,387,901	-	-	2,387,901
Funds held on behalf of clients	850,802	-	-	850,802
Pension plan liability	34,266,455	-	-	34,266,455
Other long-term liabilities	268,104	-	-	268,104
Total Long-Term Liabilities	<u>40,599,774</u>	<u>10,612,827</u>	<u>-</u>	<u>51,212,601</u>
Total Liabilities	<u>63,772,301</u>	<u>10,947,131</u>	<u>(1,665,506)</u>	<u>73,053,926</u>
NET ASSETS				
Unrestricted	198,816,825	160,481,111	(160,481,111)	198,816,825
Temporarily restricted	7,648,656	1,454,798	(1,454,798)	7,648,656
Permanently restricted	7,960,844	6,189,015	(6,189,015)	7,960,844
Total Net Assets	<u>214,426,325</u>	<u>168,124,924</u>	<u>(168,124,924)</u>	<u>214,426,325</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 278,198,626</u>	<u>\$ 179,072,055</u>	<u>\$ (169,790,430)</u>	<u>\$ 287,480,251</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended August 31, 2012

	Unrestricted			Consolidated
	Bethesda	Foundation	Eliminations	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 8,930,615	\$ 670,386	\$ -	\$ 9,601,001
Net assets released from restrictions - operations	<u>1,327,342</u>	<u>-</u>	<u>-</u>	<u>1,327,342</u>
Total Operating Public Support	<u>10,257,957</u>	<u>670,386</u>	<u>-</u>	<u>10,928,343</u>
OPERATING REVENUE				
Program service revenue	101,771,298	-	-	101,771,298
Investment income	17,628	6,976,867	-	6,994,495
Retail operations income	5,845,452	-	-	5,845,452
Rental income	244,131	-	-	244,131
Gain on sale of property and equipment	336,151	-	-	336,151
Change in value of split-interest annuities	(284,692)	806,151	-	521,459
Change in net equity of Foundation	(1,238,974)	-	1,238,974	-
Other	<u>963,596</u>	<u>28,645</u>	<u>-</u>	<u>992,241</u>
Total Operating Revenue	<u>107,654,590</u>	<u>7,811,663</u>	<u>1,238,974</u>	<u>116,705,227</u>
Total Operating Public Support and Revenue	<u>117,912,547</u>	<u>8,482,049</u>	<u>1,238,974</u>	<u>127,633,570</u>
OPERATING EXPENSES				
Program expenses	108,797,604	-	-	108,797,604
Management and general expenses	24,842,243	-	-	24,842,243
Fundraising expenses	<u>2,343,205</u>	<u>124,493</u>	<u>-</u>	<u>2,467,698</u>
Total Operating Expenses	<u>135,983,052</u>	<u>124,493</u>	<u>-</u>	<u>136,107,545</u>
Change in Net Assets Before Non-Operating Activities	<u>(18,070,505)</u>	<u>8,357,556</u>	<u>1,238,974</u>	<u>(8,473,975)</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	133,011	-	-	133,011
Restricted contributions	(711)	-	-	(711)
Market adjustment for fixed income investments	1,941	(330,530)	-	(328,589)
Adjustment to unfunded pension plan liability	(19,022,286)	-	-	(19,022,286)
Transfer (to) from Foundation	<u>9,266,000</u>	<u>(9,266,000)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Activities	<u>(9,622,045)</u>	<u>(9,596,530)</u>	<u>-</u>	<u>(19,218,575)</u>
CHANGE IN NET ASSETS	(27,692,550)	(1,238,974)	1,238,974	(27,692,550)
NET ASSETS - BEGINNING OF YEAR	<u>226,509,375</u>	<u>161,720,085</u>	<u>(161,720,085)</u>	<u>226,509,375</u>
NET ASSETS - END OF YEAR	<u>\$ 198,816,825</u>	<u>\$ 160,481,111</u>	<u>\$ (160,481,111)</u>	<u>\$ 198,816,825</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES (continued)
For the Year Ended August 31, 2012

	Temporarily Restricted				Permanently Restricted			
	Bethesda	Foundation	Eliminations	Consolidated	Bethesda	Foundation	Eliminations	Consolidated
OPERATING PUBLIC SUPPORT								
Net assets released from restrictions - operations	\$ (1,327,342)	\$ -	\$ -	\$ (1,327,342)	\$ -	\$ -	\$ -	\$ -
OPERATING REVENUE								
Change in value of split-interest annuities	-	(18,969)	-	(18,969)	-	-	-	-
Change in net equity of Foundation	(18,969)	-	18,969	-	(118,488)	-	118,488	-
Total Operating Revenue	(18,969)	(18,969)	18,969	(18,969)	(118,488)	-	118,488	-
Total Operating Public Support and Revenue	(1,346,311)	(18,969)	18,969	(1,346,311)	(118,488)	-	118,488	-
NON-OPERATING ACTIVITIES								
Net assets released from restrictions - capital acquisitions	(133,011)	-	-	(133,011)	-	-	-	-
Restricted contributions	1,590,671	-	-	1,590,671	-	(132,072)	-	(132,072)
Restricted investment income	26,824	-	-	26,824	-	13,584	-	13,584
Total Non-Operating Activities	1,484,484	-	-	1,484,484	-	(118,488)	-	(118,488)
CHANGE IN NET ASSETS	138,173	(18,969)	18,969	138,173	(118,488)	(118,488)	118,488	(118,488)
NET ASSETS - BEGINNING OF YEAR	7,510,483	1,473,767	(1,473,767)	7,510,483	8,079,332	6,307,503	(6,307,503)	8,079,332
NET ASSETS - END OF YEAR	<u>\$ 7,648,656</u>	<u>\$ 1,454,798</u>	<u>\$ (1,454,798)</u>	<u>\$ 7,648,656</u>	<u>\$ 7,960,844</u>	<u>\$ 6,189,015</u>	<u>\$ (6,189,015)</u>	<u>\$ 7,960,844</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

BETHESDA STATEMENT OF ACTIVITIES For the Year Ended August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 8,930,615	\$ -	\$ -	\$ 8,930,615
Net assets released from restrictions - operations	<u>1,327,342</u>	<u>(1,327,342)</u>	<u>-</u>	<u>-</u>
Total Operating Public Support	<u>10,257,957</u>	<u>(1,327,342)</u>	<u>-</u>	<u>8,930,615</u>
OPERATING REVENUE				
Program service revenue	101,771,298	-	-	101,771,298
Investment income	17,628	-	-	17,628
Retail operations income	5,845,452	-	-	5,845,452
Rental income	244,131	-	-	244,131
Gain on sale of property and equipment	336,151	-	-	336,151
Change in value of split-interest annuities	(284,692)	-	-	(284,692)
Change in net equity of Foundation	(1,238,974)	(18,969)	(118,488)	(1,376,431)
Other	<u>963,596</u>	<u>-</u>	<u>-</u>	<u>963,596</u>
Total Operating Revenue	<u>107,654,590</u>	<u>(18,969)</u>	<u>(118,488)</u>	<u>107,517,133</u>
Total Operating Public Support and Operating Revenue	<u>117,912,547</u>	<u>(1,346,311)</u>	<u>(118,488)</u>	<u>116,447,748</u>
OPERATING EXPENSES				
Program expenses	108,797,604	-	-	108,797,604
Management and general expenses	24,842,243	-	-	24,842,243
Fundraising expenses	<u>2,343,205</u>	<u>-</u>	<u>-</u>	<u>2,343,205</u>
Total Operating Expenses	<u>135,983,052</u>	<u>-</u>	<u>-</u>	<u>135,983,052</u>
Change in Net Assets Before Non-Operating Activities	<u>(18,070,505)</u>	<u>(1,346,311)</u>	<u>(118,488)</u>	<u>(19,535,304)</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	133,011	(133,011)	-	-
Restricted contributions	(711)	1,590,671	-	1,589,960
Restricted investment income	-	26,824	-	26,824
Market adjustment for fixed income investments	1,941	-	-	1,941
Adjustment to unfunded pension plan liability	(19,022,286)	-	-	(19,022,286)
Transfer from Foundation	<u>9,266,000</u>	<u>-</u>	<u>-</u>	<u>9,266,000</u>
Total Non-Operating Activities	<u>(9,622,045)</u>	<u>1,484,484</u>	<u>-</u>	<u>(8,137,561)</u>
CHANGE IN NET ASSETS	(27,692,550)	138,173	(118,488)	(27,672,865)
NET ASSETS - BEGINNING OF YEAR	<u>226,509,375</u>	<u>7,510,483</u>	<u>8,079,332</u>	<u>242,099,190</u>
NET ASSETS - END OF YEAR	<u>\$ 198,816,825</u>	<u>\$ 7,648,656</u>	<u>\$ 7,960,844</u>	<u>\$ 214,426,325</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

FOUNDATION STATEMENT OF ACTIVITIES For the Year Ended August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 670,386	\$ -	\$ -	\$ 670,386
OPERATING REVENUE				
Investment income	6,976,867	-	-	6,976,867
Change in value of split-interest annuities	806,151	(18,969)	-	787,182
Other	28,645	-	-	28,645
Total Operating Revenue	<u>7,811,663</u>	<u>(18,969)</u>	<u>-</u>	<u>7,792,694</u>
Total Operating Public Support and Revenue	<u>8,482,049</u>	<u>(18,969)</u>	<u>-</u>	<u>8,463,080</u>
OPERATING EXPENSES				
Fundraising expenses	124,493	-	-	124,493
Change in Net Assets Before Non-Operating Activities	<u>8,357,556</u>	<u>(18,969)</u>	<u>-</u>	<u>8,338,587</u>
NON-OPERATING ACTIVITIES				
Restricted contributions	-	-	(132,072)	(132,072)
Restricted investment income	-	-	13,584	13,584
Market adjustment for fixed income investments	(330,530)	-	-	(330,530)
Transfer to Bethesda	(9,266,000)	-	-	(9,266,000)
Total Non-Operating Activities	<u>(9,596,530)</u>	<u>-</u>	<u>(118,488)</u>	<u>(9,715,018)</u>
CHANGE IN NET ASSETS	(1,238,974)	(18,969)	(118,488)	(1,376,431)
NET ASSETS - BEGINNING OF YEAR	<u>161,720,085</u>	<u>1,473,767</u>	<u>6,307,503</u>	<u>169,501,355</u>
NET ASSETS - END OF YEAR	<u>\$ 160,481,111</u>	<u>\$ 1,454,798</u>	<u>\$ 6,189,015</u>	<u>\$ 168,124,924</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES For the Year Ended August 31, 2012

	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
PROGRAM EXPENSES				
Salaries	\$ 59,982,008	\$ -	\$ -	\$ 59,982,008
Fringe benefits	19,940,443	-	-	19,940,443
Supplies	4,568,052	-	-	4,568,052
Repairs	1,732,078	-	-	1,732,078
Client professional and other services	4,078,783	-	-	4,078,783
Staff development	92,205	-	-	92,205
Legal, audit, and other professional services	206,803	-	-	206,803
Other general outside services	1,646,586	-	-	1,646,586
Travel, meals, lodging and gasoline	1,752,183	-	-	1,752,183
Rent	1,422,993	-	-	1,422,993
Telephone and internet services	761,476	-	-	761,476
Electricity, natural gas, water and sewer	2,274,849	-	-	2,274,849
Property and liability insurance	1,302,405	-	-	1,302,405
Depreciation and amortization	6,167,104	-	-	6,167,104
Interest	287,658	-	-	287,658
Medicaid assessment fees	1,756,766	-	-	1,756,766
All other	825,212	-	-	825,212
Total Program Expenses	<u>\$ 108,797,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,797,604</u>
MANAGEMENT AND GENERAL EXPENSES				
Salaries	\$ 11,388,029	\$ -	\$ -	\$ 11,388,029
Fringe benefits	3,601,808	-	-	3,601,808
Supplies	1,009,865	-	-	1,009,865
Repairs	190,022	-	-	190,022
Client professional and other services	51,839	-	-	51,839
Staff development	845,608	-	-	845,608
Legal, audit and other professional services	843,223	-	-	843,223
Other general outside services	1,369,246	-	-	1,369,246
Travel, meals, lodging and gasoline	678,725	-	-	678,725
Rent	2,152,748	-	-	2,152,748
Telephone and internet services	448,720	-	-	448,720
Electricity, natural gas, water and sewer	491,713	-	-	491,713
Property and liability insurance	208,264	-	-	208,264
Depreciation and amortization	1,054,946	-	-	1,054,946
Interest	47,503	-	-	47,503
All other	459,984	-	-	459,984
Total Management and General Expenses	<u>\$ 24,842,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,842,243</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES (continued)
For the Year Ended August 31, 2012

	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
FUNDRAISING EXPENSES				
Salaries	\$ 1,269,273	\$ -	\$ -	\$ 1,269,273
Fringe benefits	346,230	-	-	346,230
Supplies	222,923	-	-	222,923
Repairs	1,491	-	-	1,491
Client professional and other services	78,892	-	-	78,892
Staff development	10,061	-	-	10,061
Legal, audit and other professional services	94,842	112,740	-	207,582
Other general outside services	84,400	505	-	84,905
Travel, meals, lodging and gasoline	190,052	-	-	190,052
Rent	300	-	-	300
Telephone and internet services	14,762	-	-	14,762
Electricity, natural gas, water and sewer	3,086	-	-	3,086
Property and liability insurance	11,030	-	-	11,030
Depreciation and amortization	12,883	11,248	-	24,131
All other	2,980	-	-	2,980
Total Fundraising Expenses	<u>\$ 2,343,205</u>	<u>\$ 124,493</u>	<u>\$ -</u>	<u>\$ 2,467,698</u>
TOTAL EXPENSES				
Salaries	\$ 72,639,310	\$ -	\$ -	\$ 72,639,310
Fringe benefits	23,888,481	-	-	23,888,481
Supplies	5,800,840	-	-	5,800,840
Repairs	1,923,591	-	-	1,923,591
Client professional and other services	4,209,514	-	-	4,209,514
Staff development	947,874	-	-	947,874
Legal, audit and other professional services	1,144,868	112,740	-	1,257,608
Other general outside services	3,100,232	505	-	3,100,737
Travel, meals, lodging and gasoline	2,620,960	-	-	2,620,960
Rent	3,576,041	-	-	3,576,041
Telephone and internet services	1,224,958	-	-	1,224,958
Electricity, natural gas, water and sewer	2,769,648	-	-	2,769,648
Property and liability insurance	1,521,699	-	-	1,521,699
Depreciation and amortization	7,234,933	11,248	-	7,246,181
Interest	335,161	-	-	335,161
Medicaid assessment fees	1,756,766	-	-	1,756,766
All other	1,288,176	-	-	1,288,176
Total Expenses	<u>\$ 135,983,052</u>	<u>\$ 124,493</u>	<u>\$ -</u>	<u>\$ 136,107,545</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

BETHESDA SCHEDULE OF PROPERTY AND EQUIPMENT For the Year Ended August 31, 2012

	Cost			Accumulated Depreciation			Net Carrying Amount August 31, 2012		
	Balances August 31, 2011	Additions	Transfers and Disposals	Balances August 31, 2012	Balances August 31, 2011	Current Additions		Transfers and Disposals	Balances August 31, 2012
USED IN CLIENT PROGRAMS									
Land and land improvements	\$ 18,760,453	\$ 146,010	\$ (135,672)	\$ 18,770,791	\$ 4,730,084	\$ 446,635	\$ (62,303)	\$ 5,114,416	\$ 13,656,375
Buildings and improvements	99,345,023	9,932	372,811	99,727,766	41,698,514	3,301,386	(328,913)	44,670,987	55,056,779
Fixed equipment	8,775,697	758,410	161,278	9,695,385	5,389,589	511,308	31,147	5,932,044	3,763,341
Capitalized maintenance	1,087,389	259,921	15,022	1,362,332	789,848	355,279	(18,819)	1,126,308	236,024
Moveable equipment	26,063,261	1,769,594	(668,546)	27,164,309	22,455,244	2,368,241	(1,052,747)	23,770,738	3,393,571
Construction in progress	664,061	1,246,530	(1,290,166)	620,425	-	-	-	-	620,425
	<u>154,695,884</u>	<u>4,190,397</u>	<u>(1,545,273)</u>	<u>157,341,008</u>	<u>75,063,279</u>	<u>6,982,849</u>	<u>(1,431,635)</u>	<u>80,614,493</u>	<u>76,726,515</u>
NOT USED IN CLIENT PROGRAMS									
Land and land improvements	651,062	22,702	-	673,764	51,369	4,481	-	55,850	617,914
Buildings and improvements	4,091,523	29,520	(584,630)	3,536,413	1,317,513	136,478	(356,835)	1,097,156	2,439,257
Fixed equipment	479,915	15,020	(102,982)	391,953	174,205	31,739	(44,616)	161,328	230,625
Capitalized maintenance	20,900	-	-	20,900	6,967	6,967	-	13,934	6,966
Moveable equipment	1,183,577	39,208	(84,041)	1,138,744	996,147	62,489	(75,078)	983,558	155,186
Construction in progress	-	101,928	(101,928)	-	-	-	-	-	-
	<u>6,426,977</u>	<u>208,378</u>	<u>(873,581)</u>	<u>5,761,774</u>	<u>2,546,201</u>	<u>242,154</u>	<u>(476,529)</u>	<u>2,311,826</u>	<u>3,449,948</u>
	<u>\$ 161,122,861</u>	<u>\$ 4,398,775</u>	<u>\$ (2,418,854)</u>	<u>\$ 163,102,782</u>	<u>\$ 77,609,480</u>	<u>\$ 7,225,003</u>	<u>\$ (1,908,164)</u>	<u>\$ 82,926,319</u>	<u>\$ 80,176,463</u>