

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

Watertown, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended August 31, 2014 and 2013

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

TABLE OF CONTENTS As of and for the Years Ended August 31, 2014 and 2013

Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Functional Operating Expenses	7 - 8
Notes to Consolidated Financial Statements	9 - 31
Supplemental Information	
Consolidating Statement of Financial Position	32 - 33
Consolidating Statement of Activities	34 - 35
Bethesda Statement of Activities	36
Foundation Statement of Activities	37
Consolidating Statement of Functional Operating Expenses	38 - 39
Bethesda Schedule of Property and Equipment	40

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, 2014 and 2013, 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 audits 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Consolidating and Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 32 - 39 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 it is not a required part of the consolidated financial statements. Also, the Schedule of Property and Equipment is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2014 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 in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly Vinchow Krause, LLP

Milwaukee, Wisconsin
October 28, 2014

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As of August 31, 2014 and 2013

ASSETS		
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,154,472	\$ 9,899,445
Accounts receivable:		
Client programs	12,258,232	9,020,761
Interest and other	914,905	854,773
Legacies	539,000	3,349,000
Pledges	-	223,001
Supply inventories	503,751	423,923
Prepaid expenses and other current assets	659,668	1,189,950
Total Current Assets	20,030,028	24,960,853
ASSETS WHOSE USE IS LIMITED OR RESTRICTED		
Funds held on behalf of clients	1,603,970	1,105,519
Escrow deposits	1,195,040	1,150,404
Other donor restricted assets	33,319	33,690
Total Assets Whose Use is Limited or Restricted	2,832,329	2,289,613
OTHER ASSETS		
Investments	185,018,317	165,607,226
Assets relating to split-interest agreements and trusts	19,675,921	18,781,809
Notes receivable and other assets	44,809	45,490
Total Other Assets	204,739,047	184,434,525
PROPERTY AND EQUIPMENT		
	84,443,963	85,265,582
TOTAL ASSETS	\$ 312,045,367	\$ 296,950,573
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,898,726	\$ 3,759,882
Salaries, wages, related withholdings and fringe benefits	12,208,379	10,566,330
Line of credit	14,300,000	14,300,000
Current portion of bonds payable	123,726	-
Current portion of mortgage notes payable - HUD	137,840	126,158
Other current liabilities	45,695	45,644
Total Current Liabilities	29,714,366	28,798,014
LONG-TERM LIABILITIES		
Due to beneficiaries and others under split-interest agreements and trusts	14,709,230	13,404,653
Bonds payable	5,606,550	-
Mortgage notes payable - HUD	2,123,903	2,261,743
Pension plan liability	15,724,186	16,529,443
Funds held on behalf of clients	1,052,130	1,060,141
Other long-term liabilities	287,964	278,034
Total Long-Term Liabilities	39,503,963	33,534,014
Total Liabilities	69,218,329	62,332,028
NET ASSETS		
Unrestricted	225,441,656	216,966,513
Temporarily restricted	9,351,658	9,626,000
Permanently restricted	8,033,724	8,026,032
Total Net Assets	242,827,038	234,618,545
TOTAL LIABILITIES AND NET ASSETS	\$ 312,045,367	\$ 296,950,573

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 11,248,125	\$ -	\$ -	\$ 11,248,125
Net assets released from restrictions - operations	<u>3,666,138</u>	<u>(3,666,138)</u>	-	-
Total Operating Public Support	<u>14,914,263</u>	<u>(3,666,138)</u>	-	<u>11,248,125</u>
OPERATING REVENUE				
Program service revenue	106,901,205	-	-	106,901,205
Investment income	23,478,778	-	-	23,478,778
Retail operations income	6,840,103	-	-	6,840,103
Rental income	293,275	-	-	293,275
Gain on sale of property and equipment	67,708	-	-	67,708
Change in value of split-interest annuities	(438,082)	932	-	(437,150)
Other	<u>807,235</u>	<u>-</u>	<u>-</u>	<u>807,235</u>
Total Operating Revenue	<u>137,950,222</u>	<u>932</u>	<u>-</u>	<u>137,951,154</u>
Total Operating Public Support and Revenue	<u>152,864,485</u>	<u>(3,665,206)</u>	<u>-</u>	<u>149,199,279</u>
OPERATING EXPENSES				
Program expenses	116,729,939	-	-	116,729,939
Management and general expenses	26,454,310	-	-	26,454,310
Fundraising expenses	<u>2,547,940</u>	<u>-</u>	<u>-</u>	<u>2,547,940</u>
Total Operating Expenses	<u>145,732,189</u>	<u>-</u>	<u>-</u>	<u>145,732,189</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	165,049	(165,049)	-	-
Restricted contributions	371	3,542,367	-	3,542,738
Restricted investment income	-	13,546	7,692	21,238
Market adjustment for fixed income investments	1,572,170	-	-	1,572,170
Adjustment to unfunded pension plan liability	<u>(394,743)</u>	<u>-</u>	<u>-</u>	<u>(394,743)</u>
Total Non-Operating Activities	<u>1,342,847</u>	<u>3,390,864</u>	<u>7,692</u>	<u>4,741,403</u>
CHANGE IN NET ASSETS	8,475,143	(274,342)	7,692	8,208,493
NET ASSETS - BEGINNING OF YEAR	<u>216,966,513</u>	<u>9,626,000</u>	<u>8,026,032</u>	<u>234,618,545</u>
NET ASSETS - END OF YEAR	<u>\$ 225,441,656</u>	<u>\$ 9,351,658</u>	<u>\$ 8,033,724</u>	<u>\$ 242,827,038</u>

See accompanying notes to consolidated financial statements.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES For the Year Ended August 31, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 10,058,110	\$ -	\$ -	\$ 10,058,110
Net assets released from restrictions - operations	<u>1,929,261</u>	<u>(1,929,261)</u>	<u>-</u>	<u>-</u>
Total Operating Public Support	<u>11,987,371</u>	<u>(1,929,261)</u>	<u>-</u>	<u>10,058,110</u>
OPERATING REVENUE				
Program service revenue	102,056,403	-	-	102,056,403
Investment income	16,882,596	-	-	16,882,596
Retail operations income	6,711,842	-	-	6,711,842
Rental income	247,193	-	-	247,193
Gain on sale of property and equipment	136,351	-	-	136,351
Change in value of split-interest annuities	(286,166)	(2,318)	-	(288,484)
Other	<u>994,019</u>	<u>-</u>	<u>-</u>	<u>994,019</u>
Total Operating Revenue	<u>126,742,238</u>	<u>(2,318)</u>	<u>-</u>	<u>126,739,920</u>
Total Operating Public Support and Revenue	<u>138,729,609</u>	<u>(1,931,579)</u>	<u>-</u>	<u>136,798,030</u>
OPERATING EXPENSES				
Program expenses	107,529,189	-	-	107,529,189
Management and general expenses	28,031,947	-	-	28,031,947
Fundraising expenses	<u>2,154,109</u>	<u>-</u>	<u>-</u>	<u>2,154,109</u>
Total Operating Expenses	<u>137,715,245</u>	<u>-</u>	<u>-</u>	<u>137,715,245</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	69,596	(69,596)	-	-
Restricted contributions	(825,519)	3,946,352	54,747	3,175,580
Restricted investment income	-	32,167	10,441	42,608
Market adjustment for fixed income investments	(1,945,765)	-	-	(1,945,765)
Adjustment to unfunded pension plan liability	<u>19,837,012</u>	<u>-</u>	<u>-</u>	<u>19,837,012</u>
Total Non-Operating Activities	<u>17,135,324</u>	<u>3,908,923</u>	<u>65,188</u>	<u>21,109,435</u>
CHANGE IN NET ASSETS	18,149,688	1,977,344	65,188	20,192,220
NET ASSETS - BEGINNING OF YEAR	<u>198,816,825</u>	<u>7,648,656</u>	<u>7,960,844</u>	<u>214,426,325</u>
NET ASSETS - END OF YEAR	<u>\$ 216,966,513</u>	<u>\$ 9,626,000</u>	<u>\$ 8,026,032</u>	<u>\$ 234,618,545</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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 8,208,493	\$ 20,192,220
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Bad debt expense	189,084	354,441
Net unrealized gain on investments	(9,181,031)	(6,140,173)
Amortization	9,930	9,930
Depreciation	7,529,493	7,151,875
Gain on sale of property and equipment	(67,708)	(136,351)
Net realized gain on investments	(13,271,599)	(5,784,996)
Net change in split interest agreements	323,474	22,753
Contributions restricted for endowment	-	(54,747)
Restricted investment income, net	(21,238)	(42,608)
Decrease (increase) in beneficial interest in trusts	87,362	(147,207)
Changes in assets and liabilities		
Client programs receivable	(3,426,555)	968,322
Interest and other receivable	(60,132)	271,605
Pledges receivable	223,001	9,800
Legacies receivable	2,810,000	(2,088,340)
Supply inventories	(79,828)	(40,393)
Prepaid expenses and other current assets	530,282	(31,861)
Notes receivable and other assets	681	(1,429)
Funds held on behalf of clients	(506,462)	18,814
Accounts payable	(861,156)	(7,832)
Salaries, wages, related withholdings and fringe benefits	1,642,049	(845,285)
Pension plan liability	(805,257)	(17,737,012)
Other current liabilities	51	(867)
Net Cash Flows from Operating Activities	(6,727,066)	(4,059,341)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,083,022)	(11,312,481)
Proceeds from sale of property and equipment	442,856	565,352
Purchase of investments	(90,656,320)	(90,890,196)
Proceeds from sale of investments	93,697,859	97,585,263
Net change in escrow deposits	(44,636)	56,238
Net Cash Flows from Investing Activities	(3,643,263)	(3,995,824)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	-	7,800,000
Principal payments on mortgage notes payable - HUD	(126,158)	(115,485)
Restricted investment income, net	21,238	42,608
Contributions restricted for endowment	-	54,747
Proceeds from bonds payable	5,730,276	-
Net Cash Flows from Financing Activities	5,625,356	7,781,870
Net Change in Cash and Cash Equivalents	(4,744,973)	(273,295)
CASH AND CASH EQUIVALENTS - Beginning of Year	9,899,445	10,172,740
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,154,472	\$ 9,899,445
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 551,728	\$ 336,027

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, 2014

	Program	Management and General	Fundraising	Total
Salaries	\$ 67,191,177	\$ 12,040,729	\$ 1,251,942	\$ 80,483,848
Payroll taxes and benefits	18,211,169	3,035,210	292,923	21,539,302
Supplies	4,898,322	1,827,469	155,140	6,880,931
Repairs	1,967,954	167,294	-	2,135,248
Client professional and other services	3,659,841	173,941	142,488	3,976,270
Staff development	172,372	815,856	16,950	1,005,178
Legal, audit and other professional services	128,535	1,270,048	151,897	1,550,480
Other general outside services	1,864,496	1,386,901	269,901	3,521,298
Travel, meals, lodging and gasoline	1,963,375	791,735	186,518	2,941,628
Rent	1,716,284	1,723,404	-	3,439,688
Telephone and internet services	831,218	509,845	14,694	1,355,757
Electricity, natural gas, water and sewer	2,527,476	575,655	26,057	3,129,188
Property and liability insurance	1,907,196	262,619	17,743	2,187,558
Depreciation and amortization	6,370,999	1,153,630	14,794	7,539,423
Interest	310,489	254,936	-	565,425
Medicaid assessment fees	2,213,536	-	-	2,213,536
All other	795,500	465,038	6,893	1,267,431
Total Expenses	<u>\$ 116,729,939</u>	<u>\$ 26,454,310</u>	<u>\$ 2,547,940</u>	<u>\$ 145,732,189</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, 2013

	Program	Management and General	Fundraising	Total
Salaries	\$ 61,216,315	\$ 12,707,754	\$ 1,094,337	\$ 75,018,406
Payroll taxes and benefits	16,817,009	3,298,770	254,393	20,370,172
Supplies	4,601,378	1,579,528	217,577	6,398,483
Repairs	1,808,843	188,750	500	1,998,093
Client professional and other services	3,902,171	198,931	120,008	4,221,110
Staff development	183,227	784,202	5,955	973,384
Legal, audit, and other professional services	232,058	1,727,842	173,533	2,133,433
Other general outside services	1,659,296	1,412,228	64,131	3,135,655
Travel, meals, lodging and gasoline	1,896,110	825,284	156,821	2,878,215
Rent	1,506,626	2,133,078	-	3,639,704
Telephone and internet services	766,538	522,337	14,012	1,302,887
Electricity, natural gas, water and sewer	2,252,253	513,969	8,486	2,774,708
Property and liability insurance	1,412,847	268,555	14,796	1,696,198
Depreciation and amortization	5,975,925	1,162,363	23,517	7,161,805
Interest	255,688	115,943	-	371,631
Medicaid assessment fees	2,103,907	-	-	2,103,907
All other	938,998	592,413	6,043	1,537,454
Total Expenses	\$ 107,529,189	\$ 28,031,947	\$ 2,154,109	\$ 137,715,245

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, 2014 and 2013

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Accounts receivable are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date, and are stated at the invoice amount. The Organization provides an allowance for doubtful accounts for client programs receivable equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts deemed uncollectible are charged against revenue, if related to the current year, and charged to bad debt expense, if related to prior years. Client programs receivable are shown net of an allowance for doubtful accounts of \$200,000 as of August 31, 2014 and 2013.

Pledges Receivable

Pledges to the Organization are recorded in the year the pledge is made. Amounts that are expected to be collected after one year are reflected in the consolidated financial statements at their net present value which approximates fair value. No long-term pledges receivable existed as of August 31, 2014 and 2013, therefore, no discount was recorded. An allowance for pledges receivable is determined based on experience. No allowance for doubtful accounts is considered necessary as of August 31, 2014 and 2013.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2014 and 2013.

Legacies receivable of \$539,000 and \$3,349,000 as of August 31, 2014 and 2013, 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, 2014 and 2013

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 \$287,964 and \$278,034 for asbestos clean-up costs as of August 31, 2014 and 2013, 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, 2014 and 2013.

Assets 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 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 4.5% to 6% were used to project the Unitrusts, Annuity Trusts, and Pooled Income Funds liability as of August 31, 2014 and 2013. 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, 2014 and 2013

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. However, any unrelated business income may be subject to taxation.

Contributions

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

Program Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization. Payment arrangements include reimbursement 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 Organization's financial instruments, excluding investments and assets relating to split-interest agreements and trusts, consist principally of cash and cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other current liabilities, all whose carrying value approximates fair value as they are short term in nature.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 1 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

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.

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 and bonds 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 2013 amounts have been reclassified to conform with classifications adopted in 2014. The reclassifications have no effect on reported amount of net assets or change in net assets.

Distributions

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

The Organization has evaluated subsequent events through October 28, 2014, 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, 2014 and 2013

NOTE 2 - Fair Value Measurements (continued)

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

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Investments	\$ 185,018,317	\$ 185,018,317	\$ 165,607,226	\$ 165,607,226
Assets relating to split-interest agreements and trusts	\$ 19,675,921	\$ 19,675,921	\$ 18,781,809	\$ 18,781,809
Financial liabilities:				
Due to beneficiaries and others under split-interest agreements and trusts	\$ 14,709,230	\$ 14,709,230	\$ 13,404,653	\$ 13,404,653
Fixed rate bonds	\$ 5,730,276	\$ 5,730,276	\$ -	\$ -
Fixed rate mortgage notes	\$ 2,261,743	\$ 3,018,667	\$ 2,387,901	\$ 3,210,233
Line of credit	\$ 14,300,000	\$ 14,300,000	\$ 14,300,000	\$ 14,300,000

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

	August 31, 2014			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Investments				
Mutual funds - balanced	\$ 3,386,107	\$ 3,386,107	\$ -	\$ -
Common and preferred stock	109,967,367	109,967,367	-	-
Church extension funds	764,970	-	764,970	-
Fixed income securities	36,555,471	36,555,471	-	-
Hedge funds	34,332,980	9,234,079	-	25,098,901
Money market funds	11,422	-	11,422	-
Total	<u>\$ 185,018,317</u>	<u>\$ 159,143,024</u>	<u>\$ 776,392</u>	<u>\$ 25,098,901</u>
Assets relating to split-interest agreements and trusts				
Fixed income mutual funds	\$ 3,460,769	\$ 3,460,769	\$ -	\$ -
Equity mutual funds	11,916,024	11,916,024	-	-
Beneficial interest in assets held by others	4,299,128	-	-	4,299,128
Total	<u>\$ 19,675,921</u>	<u>\$ 15,376,793</u>	<u>\$ -</u>	<u>\$ 4,299,128</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 2 - Fair Value Measurements (continued)

		August 31, 2013			
		Total	Level 1	Level 2	Level 3
Financial assets:					
Investments					
Mutual funds - balanced	\$	2,369,063	\$ 2,369,063	\$ -	\$ -
Common and preferred stock		91,398,042	91,398,042	-	-
Church extension funds		1,464,970	-	1,464,970	-
Fixed income securities		45,485,175	45,485,175	-	-
Hedge funds		24,611,221	1,360,002	-	23,251,219
Money market funds		<u>278,755</u>	<u>-</u>	<u>278,755</u>	<u>-</u>
Total		<u>\$ 165,607,226</u>	<u>\$ 140,612,282</u>	<u>\$ 1,743,725</u>	<u>\$ 23,251,219</u>
Assets relating to split-interest agreements and trusts					
Fixed income mutual funds	\$	3,468,007	\$ 3,468,007	\$ -	\$ -
Equity mutual funds		10,927,312	10,927,312	-	-
Beneficial interest in assets held by others		<u>4,386,490</u>	<u>-</u>	<u>-</u>	<u>4,386,490</u>
Total		<u>\$ 18,781,809</u>	<u>\$ 14,395,319</u>	<u>\$ -</u>	<u>\$ 4,386,490</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, 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 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 - The trusts that the Organization is named as a specified beneficiary in which they are not the trustee of the assets, are considered Level 3 items as the valuation is based on significant unobservable inputs that are not corroborated by market data.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

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, 2012	\$ 23,907,263	\$ 4,239,283
Net realized and unrealized gains included in change in net assets	687,982	147,207
Purchases	7,720,000	-
Sales	<u>(9,064,026)</u>	<u>-</u>
Balance, August 31, 2013	23,251,219	4,386,490
Net realized and unrealized gains (losses) included in change in net assets	1,814,788	(87,362)
Purchases	2,500,000	-
Sales	<u>(2,467,106)</u>	<u>-</u>
Balance, August 31, 2014	<u>\$ 25,098,901</u>	<u>\$ 4,299,128</u>
Net unrealized gains (losses) included in change in net assets relating to assets held at August 31, 2014	<u>\$ 1,575,767</u>	<u>\$ (87,362)</u>
Net unrealized gains included in change in net assets relating to assets held at August 31, 2013	<u>\$ 1,801,885</u>	<u>\$ 147,207</u>

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

The Organization invests in six 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 - 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 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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 3 - Escrow Deposits (continued)

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.

In October 2012, Good Shepherd Residence, Inc. and Good Shepherd of Washington II were notified by HUD that beginning in December 2012, housing assistance payments would be partially funded from the projects' residual receipts reserve accounts. The available balance to fund housing assistance payments is limited to funds being held in excess of \$250 per revenue producing unit. The projects were notified that \$224,431 of the residual receipts reserves would be used to fund housing assistance payments. This amount is included in program expenses on the consolidated statements of activities for the year ended August 31, 2013. For the year ending August 31, 2013, \$213,590 was recaptured from the residual receipts reserve to fund the housing assistance payments for December 2012 through August 2013, which is included in program service revenue on the consolidated statements of activities. For the year ending August 31, 2014, the remaining \$10,841 was recaptured from the residual receipts reserve. There is no remaining amount to be recaptured to fund housing assistance payments as of August 31, 2014.

NOTE 4 - Investments

Following is a summary of investments as of August 31:

	2014	2013
Common and preferred stocks		
Large cap value	\$ 19,646,115	\$ 18,121,133
Large cap growth	27,680,289	27,680,636
International	32,847,666	21,637,341
Small/Mid cap value	11,067,587	10,017,727
Small cap blend	11,852,565	10,678,809
Emerging markets	<u>6,873,145</u>	<u>3,262,396</u>
Common and preferred stocks total	<u>109,967,367</u>	<u>91,398,042</u>
Fixed income securities		
Fixed income mutual funds	2,518,494	3,640,430
Domestic corp bonds	4,847,645	7,083,060
Global	17,700,079	23,477,636
Enhanced fixed income	<u>11,489,253</u>	<u>11,284,049</u>
Fixed income securities total	<u>36,555,471</u>	<u>45,485,175</u>
Hedge funds		
Fund of funds	<u>34,332,980</u>	<u>24,611,221</u>
Mutual funds - Balanced	3,386,107	2,369,063
Church extension funds	764,970	1,464,970
Money market funds	<u>11,422</u>	<u>278,755</u>
Total	<u>\$ 185,018,317</u>	<u>\$ 165,607,226</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 4 - Investments (continued)

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

	2014	2013
Interest and dividends	\$ 3,506,179	\$ 3,921,863
Net realized gains	13,271,599	5,784,996
Net unrealized gains	9,181,031	6,140,173
Less: fees	(886,623)	(867,593)
Total	\$ 25,072,186	\$ 14,979,439

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

NOTE 5 - Property and Equipment

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

	Depreciable Lives	2014	2013
Land and land improvements	5-40 yrs.	\$ 22,958,519	\$ 22,518,954
Buildings, improvements and capitalized maintenance	5-40 yrs.	110,176,777	109,975,172
Fixed and moveable equipment	3-20 yrs.	43,729,718	40,651,126
Construction in progress	N/A	2,344,970	911,171
Total Property and Equipment		179,209,984	174,056,423
Less: Accumulated depreciation		(94,766,021)	(88,790,841)
Net Property and Equipment		\$ 84,443,963	\$ 85,265,582

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 6 - Retirement Plans

403(b) Plan

The Organization has a contributory 403(b) defined contribution plan that covers substantially all full-time employees. Participating employees are eligible to receive an employer matching contribution, which is established annually by the Board of Directors. The contribution for the years ended August 31, 2014 and 2013 were \$281,676 and \$0, respectively.

Defined Benefit Plan

The Organization had a noncontributory defined benefit pension 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 pension 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	2014	2013
Projected Benefit Obligation at beginning of year	\$ 77,938,377	\$ 93,353,206
Service cost	359,820	6,121,465
Interest cost	3,709,122	3,676,473
Effect of curtailment	-	(9,267,559)
Actuarial (gain) loss	9,419,317	(12,826,015)
Benefits paid	<u>(5,876,366)</u>	<u>(3,119,193)</u>
Projected Benefit Obligation at end of year	<u>\$ 85,550,270</u>	<u>\$ 77,938,377</u>
Change in plan assets	2014	2013
Fair value of plan assets at beginning of year	\$ 59,808,934	\$ 55,386,751
Employer contribution	3,407,490	2,260,981
Actual return on plan assets	9,686,026	5,280,395
Benefits paid	<u>(5,876,366)</u>	<u>(3,119,193)</u>
Fair value of plan assets at end of year	<u>\$ 67,026,084</u>	<u>\$ 59,808,934</u>
Funded status of the plan	<u>\$ (18,524,186)</u>	<u>\$ (18,129,443)</u>

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

	2014	2013
Accrued benefit cost - included in salaries, wages, related withholdings and fringe benefits	\$ (2,800,000)	\$ (1,600,000)
Pension plan liability	<u>(15,724,186)</u>	<u>(16,529,443)</u>
Total	<u>\$ (18,524,186)</u>	<u>\$ (18,129,443)</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 6 - Pension Plan (continued)

Defined Benefit Plan (continued)

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

	2014	2013
Service cost	\$ 359,820	\$ 6,121,465
Interest cost	3,709,122	3,676,473
Expected return on plan assets	(4,424,245)	(4,184,652)
Amortization of net loss	122,730	3,746,052
Operating portion of pension expense	\$ (232,573)	\$ 9,359,338

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:

	2014	2013
Unrecognized net gain (loss)	\$ (394,743)	\$ 19,837,012

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

	2014	2013
Unrecognized net loss	\$ 15,878,724	\$ 11,843,918

The accumulated benefit obligation for this defined benefit pension plan was \$85,550,270 and \$77,938,377 at August 31, 2014 and 2013, respectively. Since benefit accruals have been frozen during 2013, the projected benefit obligation is equal to the accumulated benefit obligation at August 31, 2014 and 2013.

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

	2014	2013
Service cost	\$ 459,564	\$ 359,820
Interest cost	3,444,087	3,709,122
Expected return on assets	(5,000,516)	(4,424,245)
Amortization of net loss from earlier periods	228,866	122,730
Total net periodic postretirement benefit cost	\$ (867,999)	\$ (232,573)

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

	2014	2013
Weighted average discount rate	4.86%	4.0%
Increase in future compensation levels	n/a	3.0%
Expected long-term rate of return on assets	7.5%	7.5%

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 6 - Pension Plan (continued)

Defined Benefit Plan (continued)

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

	2014	2013
Weighted average discount rate	4.11%	4.86%
Increase in future compensation levels	n/a	n/a

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, 2015. It is reasonably possible that the above estimate of subsequent year's net periodic post retirement benefit cost will change as it is based on an estimated \$2.8 million contribution to the plan in the next fiscal year.

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

2015	\$	3,235,459
2016		3,340,729
2017		3,425,735
2018		3,487,845
2019		3,542,374
2019-2022		20,729,611
Total	\$	37,761,753

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, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 41,959,035	\$ 41,959,035	\$ -	\$ -
Fixed income mutual funds	9,177,625	9,177,625	-	-
Money market funds	1,182,078	-	1,182,078	-
Hedge funds	14,707,346	2,991,938	-	11,715,408
Total assets	\$ 67,026,084	\$ 54,128,598	\$ 1,182,078	\$ 11,715,408
	August 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Common stocks	\$ 36,496,481	\$ 36,496,481	\$ -	\$ -
Fixed income mutual funds	8,632,495	8,632,495	-	-
Money market funds	1,142,876	-	1,142,876	-
Hedge funds	13,537,082	2,183,928	-	11,353,154
Total assets	\$ 59,808,934	\$ 47,312,904	\$ 1,142,876	\$ 11,353,154

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 6 - Pension Plan (continued)

Defined Benefit Plan (continued)

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

	<u>Hedge Funds</u>
Balance, August 31, 2012	\$ 9,161,834
Net gains (realized and unrealized)	320,859
Purchases	5,400,000
Sales	<u>(3,529,539)</u>
Balance, August 31, 2013	11,353,154
Net gains (realized and unrealized)	<u>362,254</u>
Balance, August 31, 2014	<u>\$ 11,715,408</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.

NOTE 7 - 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 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, 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. One of the unitrust agreements require that upon the death of the beneficiary, the net assets of the unitrust are to be split between the Organization and other named beneficiaries, so that only fifty percent of the net assets will be received by the Organization.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

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

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 8 - Line of Credit

During 2013, the Organization established a line of credit for \$15,000,000 with Royal Bank of Canada with a variable interest rate of LIBOR plus 1.25% (at August 31, 2014 the interest rate was 1.40%). The line of credit is secured by a guarantee of the Foundation and collateral of the Foundation's investments.

The amount borrowed on the line of credit with the Royal Bank of Canada was \$14,300,000 at August 31, 2014 and 2013. Interest expense on the line of credit was \$222,351 and \$156,587 for the years ended August 31, 2014 and 2013, respectively.

NOTE 9 - Bonds Payable

Bonds payable consist of the following at August 31:

	<u>2014</u>
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013A, fixed interest rate of 3.32%, payable in monthly installments of interest and annual installments of principal. Bonds mature November of 2043.	\$ 5,730,276
Less: Current portion	<u>(123,726)</u>
Long-Term Portion	<u>\$ 5,606,550</u>

At August 31, 2014, Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013B, were not issued and remain available for the Organization to borrow an additional \$4,269,724. The Organization does not plan to utilize any of the additional funds available.

Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013A and Series 2013B, are unconditionally guaranteed by Bethesda Lutheran Foundation, Inc.

Future maturities of bonds payable for years ending after August 31, 2014 are as follows:

2015	\$ 123,726
2016	117,931
2017	121,721
2018	126,010
2019	130,071
Thereafter	<u>5,110,817</u>
Total	<u>\$ 5,730,276</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 9 - Bonds Payable (continued)

The total interest cost incurred during the year ended August 31, 2014 and 2013 was \$132,643 and \$0, respectively.

The bond agreement contains covenants which, among other matters, require the Organization to maintain certain investment balances. At August 31, 2014, the Organization was in compliance with or has received waivers for all covenants.

NOTE 10 - Mortgage Notes Payable

Mortgage notes payable consists of the following at August 31:

	<u>2014</u>	<u>2013</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.	\$ 313,083	\$ 335,012
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.	174,389	179,226
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.	11,387	13,760
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>1,762,884</u>	<u>1,859,903</u>
Totals	2,261,743	2,387,901
Less: Current portion	<u>(137,840)</u>	<u>(126,158)</u>
Long-Term Portion	<u>\$ 2,123,903</u>	<u>\$ 2,261,743</u>

Interest expense on mortgage notes payable for 2014 and 2013 was \$210,431 and \$215,044, respectively.

Principal requirements on mortgage notes payable for years ending after August 31, 2014 are as follows:

2015	\$ 137,840
2016	150,758
2017	164,849
2018	180,199
2019	196,527
Thereafter	<u>1,431,570</u>
Total	<u>\$ 2,261,743</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

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 \$1,876,722 and \$2,154,613 as of August 31, 2014 and 2013, 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.

NOTE 12 - Net Assets

Unrestricted net assets at year end are composed of:

	<u>2014</u>	<u>2013</u>
Unrestricted reserves	<u>\$ 225,441,656</u>	<u>\$ 216,966,513</u>

Temporarily restricted net assets at year end are composed of:

	<u>2014</u>	<u>2013</u>
Time restricted	\$ 1,453,412	\$ 1,452,480
Purpose restricted	5,370,946	5,558,858
Irrevocable trust held by a third party	253,482	253,482
Held by Lutheran Church Extension Fund - Missouri Synod	<u>2,273,818</u>	<u>2,361,180</u>
Totals	<u>\$ 9,351,658</u>	<u>\$ 9,626,000</u>

Permanently restricted net assets at year end are composed of:

	<u>2014</u>	<u>2013</u>
Restricted for endowment	\$ 6,261,896	\$ 6,254,204
Held by Good Shepherd Fund	<u>1,771,828</u>	<u>1,771,828</u>
Totals	<u>\$ 8,033,724</u>	<u>\$ 8,026,032</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

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.

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

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended August 31, 2014 and 2013

NOTE 13 - Endowment (continued)

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,173,635	\$ 6,261,896	\$ 7,435,531

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,247,217	\$ 6,254,204	\$ 7,501,421

Changes in endowment net assets for the year ended August 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,247,217	\$ 6,254,204	\$ 7,501,421
Investment income	-	789,074	7,692	796,766
Amounts appropriated for expenditure	-	(862,656)	-	(862,656)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,173,635</u>	<u>\$ 6,261,896</u>	<u>\$ 7,435,531</u>

Changes in endowment net assets for the year ended August 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,233,087	\$ 6,189,016	\$ 7,422,103
Investment income	-	599,660	10,441	610,101
Contributions	-	-	54,747	54,747
Amounts appropriated for expenditure	-	(585,530)	-	(585,530)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,247,217</u>	<u>\$ 6,254,204</u>	<u>\$ 7,501,421</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of August 31, 2014 and 2013. 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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

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 Foundation considers all endowment earnings to be appropriated for expenditure in the same year the amounts are earned, unless there are donor restrictions on the earnings. For ease of tracking, investment earnings with donor restrictions are transferred to Bethesda and are reported as temporarily restricted net assets. The Foundation has elected to reflect the investment earnings that are appropriated for expenditure within the same year as unrestricted investment income in the consolidated statements of activities.

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. There are also numerous leases that are on a month-to-month basis.

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

2015	\$ 2,063,455
2016	1,562,148
2017	1,319,600
2018	1,150,744
2019	720,748
Thereafter	<u>95,810</u>
Total	<u>\$ 6,912,505</u>

Rent expense on these operating leases was \$3,034,328 and \$2,615,510 for the years ended August 31, 2014 and 2013, 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 relating to split-interest agreements and trusts in the consolidated statements of financial position in the amount of \$15,376,793 and \$14,395,319 as of August 31, 2014 and 2013, respectively. The amount due to beneficiaries as of August 31, 2014 and 2013 were \$6,896,486 and \$6,993,885, respectively. In addition there are amounts due to other beneficiaries of \$3,477,999 and \$1,762,526 as of August 31, 2014 and 2013, respectively.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 15 - Fiduciary Responsibilities (continued)

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 \$5,916,023 and \$6,288,248 as of August 31, 2014 and 2013, respectively. The amount due to beneficiaries relating to gift annuities was \$4,334,745 and \$4,648,242 as of August 31, 2014 and 2013, respectively, and is included in due to beneficiaries and others under split interest agreements and trusts on the consolidated statements of financial position.

Discretionary trusts where the Foundation is the trustee are held and administered in accordance with the wishes of the donors. Upon the death of the donor, the trust principal and income become available for supplemental care of specified Bethesda clients (trust beneficiary). The trust assets are not recognized by the Foundation until the death of the trust beneficiary, or termination of the trust, and then the trust assets are reflected in the Foundation's unrestricted net assets.

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. If the Organization does not comply with the terms of the agreements, the entire advance amounts plus interest at 6.625% per year would be required to be paid back to HUD. The capital advances are recorded as unrestricted net assets on the accompanying consolidated statements of financial position.

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 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.

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended August 31, 2014 and 2013

NOTE 19 - Concentrations (continued)

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, 2014 and 2013 were from governmental third-party payors.

The Organization is a provider under the Medicaid program in various states. Approximately 28% and 29% of program service revenue were generated from services to Medicaid beneficiaries in 2014 and 2013, respectively. Medicaid reimbursement methodology varies from state to state. The Organization has receivables of \$4,584,645 and \$3,242,397 due from Medicaid at August 31, 2014 and 2013, respectively.

SUPPLEMENTAL INFORMATION

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of August 31, 2014

	ASSETS			
	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,613,389	\$ 2,541,083	\$ -	\$ 5,154,472
Accounts receivable:				
Client programs	12,258,232	-	-	12,258,232
Interest and other	638,385	276,520	-	914,905
Legacies	539,000	-	-	539,000
Intercompany	2,235,508	-	(2,235,508)	-
Supply inventories	503,751	-	-	503,751
Prepaid expenses and other current assets	<u>659,668</u>	<u>-</u>	<u>-</u>	<u>659,668</u>
Total Current Assets	<u>19,447,933</u>	<u>2,817,603</u>	<u>(2,235,508)</u>	<u>20,030,028</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED				
Equity in net assets of Foundation	189,212,453	-	(189,212,453)	-
Funds held on behalf of clients	1,603,970	-	-	1,603,970
Escrow deposits	1,195,040	-	-	1,195,040
Other donor restricted assets	<u>33,319</u>	<u>-</u>	<u>-</u>	<u>33,319</u>
Total Assets Whose Use is Limited or Restricted	<u>192,044,782</u>	<u>-</u>	<u>(189,212,453)</u>	<u>2,832,329</u>
OTHER ASSETS				
Investments	2,518,494	182,499,823	-	185,018,317
Assets relating to split-interest agreements and trusts	4,312,174	15,363,747	-	19,675,921
Notes receivable and other assets	<u>44,809</u>	<u>-</u>	<u>-</u>	<u>44,809</u>
Total Other Assets	<u>6,875,477</u>	<u>197,863,570</u>	<u>-</u>	<u>204,739,047</u>
PROPERTY AND EQUIPMENT				
	<u>83,108,945</u>	<u>1,335,018</u>	<u>-</u>	<u>84,443,963</u>
TOTAL ASSETS	<u>\$ 301,477,137</u>	<u>\$ 202,016,191</u>	<u>\$ (191,447,961)</u>	<u>\$ 312,045,367</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
As of August 31, 2014

LIABILITIES AND NET ASSETS

	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES				
Accounts payable	\$ 2,868,726	\$ 30,000	\$ -	\$ 2,898,726
Intercompany accounts payable	1,947,785	287,723	(2,235,508)	-
Salaries, wages, related withholdings and fringe benefits	12,208,379	-	-	12,208,379
Line of credit	14,300,000	-	-	14,300,000
Current portion of bonds payable	123,726	-	-	123,726
Current portion of mortgage notes payable - HUD	137,840	-	-	137,840
Other current liabilities	<u>45,695</u>	<u>-</u>	<u>-</u>	<u>45,695</u>
Total Current Liabilities	<u>31,632,151</u>	<u>317,723</u>	<u>(2,235,508)</u>	<u>29,714,366</u>
LONG-TERM LIABILITIES				
Due to beneficiaries and others under split-interest agreements and trusts	2,223,215	12,486,015	-	14,709,230
Bonds payable	5,606,550	-	-	5,606,550
Mortgage notes payable - HUD	2,123,903	-	-	2,123,903
Pension plan liability	15,724,186	-	-	15,724,186
Funds held on behalf of clients	1,052,130	-	-	1,052,130
Other long-term liabilities	<u>287,964</u>	<u>-</u>	<u>-</u>	<u>287,964</u>
Total Long-Term Liabilities	<u>27,017,948</u>	<u>12,486,015</u>	<u>-</u>	<u>39,503,963</u>
Total Liabilities	<u>58,650,099</u>	<u>12,803,738</u>	<u>(2,235,508)</u>	<u>69,218,329</u>
NET ASSETS				
Unrestricted	225,441,656	181,497,146	(181,497,146)	225,441,656
Temporarily restricted	9,351,658	1,453,412	(1,453,412)	9,351,658
Permanently restricted	<u>8,033,724</u>	<u>6,261,895</u>	<u>(6,261,895)</u>	<u>8,033,724</u>
Total Net Assets	<u>242,827,038</u>	<u>189,212,453</u>	<u>(189,212,453)</u>	<u>242,827,038</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 301,477,137</u>	<u>\$ 202,016,191</u>	<u>\$ (191,447,961)</u>	<u>\$ 312,045,367</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended August 31, 2014

	Unrestricted			Consolidated
	Bethesda	Foundation	Eliminations	
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 10,204,089	\$ 1,044,036	\$ -	\$ 11,248,125
Net assets released from restrictions - operations	<u>3,666,138</u>	<u>-</u>	<u>-</u>	<u>3,666,138</u>
Total Operating Public Support	<u>13,870,227</u>	<u>1,044,036</u>	<u>-</u>	<u>14,914,263</u>
OPERATING REVENUE				
Program service revenue	106,901,205	-	-	106,901,205
Investment income	401,680	23,077,098	-	23,478,778
Retail operations income	6,840,103	-	-	6,840,103
Rental income	293,275	-	-	293,275
Gain on sale of property and equipment	67,708	-	-	67,708
Change in value of split-interest annuities	107,933	(546,015)	-	(438,082)
Change in net equity of Foundation	17,336,390	-	(17,336,390)	-
Other	<u>782,708</u>	<u>24,527</u>	<u>-</u>	<u>807,235</u>
Total Operating Revenue	<u>132,731,002</u>	<u>22,555,610</u>	<u>(17,336,390)</u>	<u>137,950,222</u>
Total Operating Public Support and Revenue	<u>146,601,229</u>	<u>23,599,646</u>	<u>(17,336,390)</u>	<u>152,864,485</u>
OPERATING EXPENSES				
Program expenses	116,729,939	-	-	116,729,939
Management and general expenses	26,454,310	-	-	26,454,310
Fundraising expenses	<u>2,431,008</u>	<u>116,932</u>	<u>-</u>	<u>2,547,940</u>
Total Operating Expenses	<u>145,615,257</u>	<u>116,932</u>	<u>-</u>	<u>145,732,189</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	165,049	-	-	165,049
Restricted contributions	371	-	-	371
Market adjustment for fixed income investments	18,494	1,553,676	-	1,572,170
Adjustment to unfunded pension plan liability	(394,743)	-	-	(394,743)
Transfer from Foundation (to Bethesda)	<u>7,700,000</u>	<u>(7,700,000)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Activities	<u>7,489,171</u>	<u>(6,146,324)</u>	<u>-</u>	<u>1,342,847</u>
CHANGE IN NET ASSETS	8,475,143	17,336,390	(17,336,390)	8,475,143
NET ASSETS - BEGINNING OF YEAR	<u>216,966,513</u>	<u>164,160,756</u>	<u>(164,160,756)</u>	<u>216,966,513</u>
NET ASSETS - END OF YEAR	<u>\$ 225,441,656</u>	<u>\$ 181,497,146</u>	<u>\$ (181,497,146)</u>	<u>\$ 225,441,656</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES (continued)
For the Year Ended August 31, 2014

	Temporarily Restricted				Permanently Restricted			
	Bethesda	Foundation	Eliminations	Consolidated	Bethesda	Foundation	Eliminations	Consolidated
OPERATING PUBLIC SUPPORT								
Net assets released from restrictions - operations	\$ (3,666,138)	\$ -	\$ -	\$ (3,666,138)	\$ -	\$ -	\$ -	\$ -
OPERATING REVENUE								
Change in value of split-interest annuities	-	932	-	932	-	-	-	-
Change in net equity of Foundation	932	-	(932)	-	7,692	-	(7,692)	-
Total Operating Revenue	932	932	(932)	932	7,692	-	(7,692)	-
Total Operating Public Support and Revenue	(3,665,206)	932	(932)	(3,665,206)	7,692	-	(7,692)	-
NON-OPERATING ACTIVITIES								
Net assets released from restrictions - capital acquisitions	(165,049)	-	-	(165,049)	-	-	-	-
Restricted contributions	3,542,367	-	-	3,542,367	-	-	-	-
Restricted investment income	13,546	-	-	13,546	-	7,692	-	7,692
Total Non-Operating Activities	3,390,864	-	-	3,390,864	-	7,692	-	7,692
CHANGE IN NET ASSETS	(274,342)	932	(932)	(274,342)	7,692	7,692	(7,692)	7,692
NET ASSETS - BEGINNING OF YEAR	9,626,000	1,452,480	(1,452,480)	9,626,000	8,026,032	6,254,203	(6,254,203)	8,026,032
NET ASSETS - END OF YEAR	\$ 9,351,658	\$ 1,453,412	\$ (1,453,412)	\$ 9,351,658	\$ 8,033,724	\$ 6,261,895	\$ (6,261,895)	\$ 8,033,724

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

BETHESDA STATEMENT OF ACTIVITIES For the Year Ended August 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 10,204,089	\$ -	\$ -	\$ 10,204,089
Net assets released from restrictions - operations	<u>3,666,138</u>	<u>(3,666,138)</u>	-	-
Total Operating Public Support	<u>13,870,227</u>	<u>(3,666,138)</u>	-	<u>10,204,089</u>
OPERATING REVENUE				
Program service revenue	106,901,205	-	-	106,901,205
Investment income	401,680	-	-	401,680
Retail operations income	6,840,103	-	-	6,840,103
Rental income	293,275	-	-	293,275
Gain on sale of property and equipment	67,708	-	-	67,708
Change in value of split-interest annuities	107,933	-	-	107,933
Change in net equity of Foundation	17,336,390	932	7,692	17,345,014
Other	<u>782,708</u>	-	-	<u>782,708</u>
Total Operating Revenue	<u>132,731,002</u>	<u>932</u>	<u>7,692</u>	<u>132,739,626</u>
Total Operating Public Support and Revenue	<u>146,601,229</u>	<u>(3,665,206)</u>	<u>7,692</u>	<u>142,943,715</u>
OPERATING EXPENSES				
Program expenses	116,729,939	-	-	116,729,939
Management and general expenses	26,454,310	-	-	26,454,310
Fundraising expenses	<u>2,431,008</u>	-	-	<u>2,431,008</u>
Total Operating Expenses	<u>145,615,257</u>	-	-	<u>145,615,257</u>
NON-OPERATING ACTIVITIES				
Net assets released from restrictions - capital acquisitions	165,049	(165,049)	-	-
Restricted contributions	371	3,542,367	-	3,542,738
Restricted investment income	-	13,546	-	13,546
Market adjustment for fixed income investments	18,494	-	-	18,494
Adjustment to unfunded pension plan liability	(394,743)	-	-	(394,743)
Transfer from Foundation	<u>7,700,000</u>	-	-	<u>7,700,000</u>
Total Non-Operating Activities	<u>7,489,171</u>	<u>3,390,864</u>	-	<u>10,880,035</u>
CHANGE IN NET ASSETS	8,475,143	(274,342)	7,692	8,208,493
NET ASSETS - BEGINNING OF YEAR	<u>216,966,513</u>	<u>9,626,000</u>	<u>8,026,032</u>	<u>234,618,545</u>
NET ASSETS - END OF YEAR	<u>\$ 225,441,656</u>	<u>\$ 9,351,658</u>	<u>\$ 8,033,724</u>	<u>\$ 242,827,038</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING PUBLIC SUPPORT				
Contributions and legacies	\$ 1,044,036	\$ -	\$ -	\$ 1,044,036
OPERATING REVENUE				
Investment income	23,077,098	-	-	23,077,098
Change in value of split-interest annuities	(546,015)	932	-	(545,083)
Other	24,527	-	-	24,527
Total Operating Revenue	<u>22,555,610</u>	<u>932</u>	<u>-</u>	<u>22,556,542</u>
Total Operating Public Support and Revenue	<u>23,599,646</u>	<u>932</u>	<u>-</u>	<u>23,600,578</u>
OPERATING EXPENSES				
Fundraising expenses	<u>116,932</u>	<u>-</u>	<u>-</u>	<u>116,932</u>
NON-OPERATING ACTIVITIES				
Restricted investment income	-	-	7,692	7,692
Market adjustment for fixed income investments	1,553,676	-	-	1,553,676
Transfer to Bethesda	<u>(7,700,000)</u>	<u>-</u>	<u>-</u>	<u>(7,700,000)</u>
Total Non-Operating Activities	<u>(6,146,324)</u>	<u>-</u>	<u>7,692</u>	<u>(6,138,632)</u>
CHANGE IN NET ASSETS	17,336,390	932	7,692	17,345,014
NET ASSETS - BEGINNING OF YEAR	<u>164,160,756</u>	<u>1,452,480</u>	<u>6,254,203</u>	<u>171,867,439</u>
NET ASSETS - END OF YEAR	<u>\$ 181,497,146</u>	<u>\$ 1,453,412</u>	<u>\$ 6,261,895</u>	<u>\$ 189,212,453</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES For the Year Ended August 31, 2014

	Bethesda	Foundation	Eliminations	Consolidated
PROGRAM EXPENSES				
Salaries	\$ 67,191,177	\$ -	\$ -	\$ 67,191,177
Payroll taxes and benefits	18,211,169	-	-	18,211,169
Supplies	4,898,322	-	-	4,898,322
Repairs	1,967,954	-	-	1,967,954
Client professional and other services	3,659,841	-	-	3,659,841
Staff development	172,372	-	-	172,372
Legal, audit and other professional services	128,535	-	-	128,535
Other general outside services	1,864,496	-	-	1,864,496
Travel, meals, lodging and gasoline	1,963,375	-	-	1,963,375
Rent	1,716,284	-	-	1,716,284
Telephone and internet services	831,218	-	-	831,218
Electricity, natural gas, water and sewer	2,527,476	-	-	2,527,476
Property and liability insurance	1,907,196	-	-	1,907,196
Depreciation and amortization	6,370,999	-	-	6,370,999
Interest	310,489	-	-	310,489
Medicaid assessment fees	2,213,536	-	-	2,213,536
All other	795,500	-	-	795,500
Total Program Expenses	\$ 116,729,939	\$ -	\$ -	\$ 116,729,939
MANAGEMENT AND GENERAL EXPENSES				
Salaries	\$ 12,040,729	\$ -	\$ -	\$ 12,040,729
Payroll taxes and benefits	3,035,210	-	-	3,035,210
Supplies	1,827,469	-	-	1,827,469
Repairs	167,294	-	-	167,294
Client professional and other services	173,941	-	-	173,941
Staff development	815,856	-	-	815,856
Legal, audit and other professional services	1,270,048	-	-	1,270,048
Other general outside services	1,386,901	-	-	1,386,901
Travel, meals, lodging and gasoline	791,735	-	-	791,735
Rent	1,723,404	-	-	1,723,404
Telephone and internet services	509,845	-	-	509,845
Electricity, natural gas, water and sewer	575,655	-	-	575,655
Property and liability insurance	262,619	-	-	262,619
Depreciation and amortization	1,153,630	-	-	1,153,630
Interest	254,936	-	-	254,936
All other	465,038	-	-	465,038
Total Management and General Expenses	\$ 26,454,310	\$ -	\$ -	\$ 26,454,310

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL OPERATING EXPENSES (continued)
For the Year Ended August 31, 2014

	<u>Bethesda</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
FUNDRAISING EXPENSES				
Salaries	\$ 1,251,942	\$ -	\$ -	\$ 1,251,942
Payroll taxes and benefits	292,923	-	-	292,923
Supplies	155,140	-	-	155,140
Client professional and other services	142,488	-	-	142,488
Staff development	16,950	-	-	16,950
Legal, audit and other professional services	49,586	102,311	-	151,897
Other general outside services	269,821	80	-	269,901
Travel, meals, lodging and gasoline	186,518	-	-	186,518
Telephone and internet services	14,694	-	-	14,694
Electricity, natural gas, water and sewer	26,057	-	-	26,057
Property and liability insurance	17,743	-	-	17,743
Depreciation and amortization	3,546	11,248	-	14,794
All other	3,600	3,293	-	6,893
Total Fundraising Expenses	<u>\$ 2,431,008</u>	<u>\$ 116,932</u>	<u>\$ -</u>	<u>\$ 2,547,940</u>
TOTAL EXPENSES				
Salaries	\$ 80,483,848	\$ -	\$ -	\$ 80,483,848
Payroll taxes and benefits	21,539,302	-	-	21,539,302
Supplies	6,880,931	-	-	6,880,931
Repairs	2,135,248	-	-	2,135,248
Client professional and other services	3,976,270	-	-	3,976,270
Staff development	1,005,178	-	-	1,005,178
Legal, audit and other professional services	1,448,169	102,311	-	1,550,480
Other general outside services	3,521,218	80	-	3,521,298
Travel, meals, lodging and gasoline	2,941,628	-	-	2,941,628
Rent	3,439,688	-	-	3,439,688
Telephone and internet services	1,355,757	-	-	1,355,757
Electricity, natural gas, water and sewer	3,129,188	-	-	3,129,188
Property and liability insurance	2,187,558	-	-	2,187,558
Depreciation and amortization	7,528,175	11,248	-	7,539,423
Interest	565,425	-	-	565,425
Medicaid assessment fees	2,213,536	-	-	2,213,536
All other	1,264,138	3,293	-	1,267,431
Total Expenses	<u>\$ 145,615,257</u>	<u>\$ 116,932</u>	<u>\$ -</u>	<u>\$ 145,732,189</u>

BETHESDA LUTHERAN COMMUNITIES, INC. AND AFFILIATES

BETHESDA SCHEDULE OF PROPERTY AND EQUIPMENT For the Year Ended August 31, 2014

	Cost			Accumulated Depreciation				Net Carrying Amount August 31, 2014	
	Balances August 31, 2013	Additions	Transfers and Disposals	Balances August 31, 2014	Balances August 31, 2013	Current Expense	Transfers and Disposals		Balances August 31, 2014
USED IN CLIENT PROGRAMS									
Land and land improvements	\$ 19,614,019	\$ 147,070	\$ 230,177	\$ 19,991,266	\$ 5,515,359	\$ 464,581	\$ (13,740)	\$ 5,966,200	\$ 14,025,066
Buildings and improvements	100,975,294	17,057	(69,774)	100,922,577	47,719,949	3,271,989	(313,066)	50,678,872	50,243,705
Fixed equipment	11,010,498	1,095,726	319,262	12,425,486	6,540,088	758,494	(25,440)	7,273,142	5,152,344
Capitalized maintenance	1,890,121	344,837	(23,382)	2,211,576	1,430,085	407,090	(58,178)	1,778,997	432,579
Moveable equipment	27,986,962	2,515,794	(1,062,668)	29,440,088	24,873,743	2,235,032	(1,104,469)	26,004,306	3,435,782
Construction in progress	<u>840,943</u>	<u>2,684,703</u>	<u>(1,286,345)</u>	<u>2,239,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,239,301</u>
	<u>162,317,837</u>	<u>6,805,187</u>	<u>(1,892,730)</u>	<u>167,230,294</u>	<u>86,079,224</u>	<u>7,137,186</u>	<u>(1,514,893)</u>	<u>91,701,517</u>	<u>75,528,777</u>
NOT USED IN CLIENT PROGRAMS									
Land and land improvements	1,817,365	42,941	19,377	1,879,683	60,201	11,682	2,164	74,047	1,805,636
Buildings and improvements	6,751,427	6,338	(73,471)	6,684,294	1,306,608	232,037	(47,495)	1,491,150	5,193,144
Fixed equipment	448,303	15,285	64,910	528,498	198,702	45,393	-	244,095	284,403
Capitalized maintenance	20,900	-	-	20,900	20,900	-	-	20,900	-
Moveable equipment	1,205,363	79,454	50,829	1,335,646	1,046,472	101,877	(4,019)	1,144,330	191,316
Construction in progress	<u>70,228</u>	<u>133,817</u>	<u>(98,376)</u>	<u>105,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,669</u>
	<u>10,313,586</u>	<u>277,835</u>	<u>(36,731)</u>	<u>10,554,690</u>	<u>2,632,883</u>	<u>390,989</u>	<u>(49,350)</u>	<u>2,974,522</u>	<u>7,580,168</u>
	<u>\$ 172,631,423</u>	<u>\$ 7,083,022</u>	<u>\$ (1,929,461)</u>	<u>\$ 177,784,984</u>	<u>\$ 88,712,107</u>	<u>\$ 7,528,175</u>	<u>\$ (1,564,243)</u>	<u>\$ 94,676,039</u>	<u>\$ 83,108,945</u>