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Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Financial Statements and
Supplementary Information

August 31, 2021 and 2020

Independent Auditors' Report

To the Board of Directors of
Bethesda Lutheran Communities, Inc. and Affiliates

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, 2021 and 2020, and the related consolidated statements of activities, cash flows and functional operating expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of August 31, 2021 and 2020, 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 Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other financial information on pages 39-42 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, cash flows and functional operating expenses of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2021 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Milwaukee, Wisconsin
December 29, 2021

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statements of Financial Position
August 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	$ 33,644,526	$ 12,529,652
Accounts receivable:		
Client programs	6,484,727	8,452,003
Interest and other	712,047	614,879
Legacies	664,000	1,384,239
Supply inventories	370,854	792,065
Prepaid expenses and other current assets	1,527,782	1,744,057
Assets held for sale	932,922	-
Total current assets	44,336,858	25,516,895
Assets Whose Use is Limited or Restricted		
Funds held on behalf of clients	2,935,058	2,287,033
Escrow deposits	2,336,897	1,635,923
Other donor restricted assets	30,631	30,629
Total assets whose use is limited or restricted	5,302,586	3,953,585
Other Assets		
Investments	90,929,076	75,925,089
Assets relating to split-interest agreements and trusts	14,759,770	13,465,266
Notes receivable and other assets	45,919	1,489
Pension plan asset	5,200,226	-
Total other assets	110,934,991	89,391,844
Property and Equipment, Net	45,630,458	67,660,837
Total assets	$ 206,204,893	$ 186,523,161
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 2,069,186	$ 6,138,705
Salaries, wages, related withholdings and fringe benefits	5,479,716	7,638,573
Line of credit	25,790,872	25,790,872
Current portion of mortgage notes payable	418,874	234,184
Other current liabilities	879,124	1,604,699
Total current liabilities	34,637,772	41,407,033
Long-Term Liabilities		
Due to beneficiaries and others under split-interest agreements and trusts	7,763,422	7,771,180
Mortgage notes payable	15,246,249	10,469,360
Other notes payable	10,000,000	-
Pension plan liability	-	21,525,529
Funds held on behalf of clients	2,253,843	1,737,811
Other long-term liabilities	2,045,376	2,029,065
Total long-term liabilities	37,308,890	43,532,945
Total liabilities	71,946,662	84,939,978
Net Assets		
Without donor restrictions	121,743,804	89,500,276
With donor restrictions	12,514,427	12,082,907
Total net assets	134,258,231	101,583,183
Total liabilities and net assets	$ 206,204,893	$ 186,523,161

See notes to consolidated financial statements

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended August 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating Public Support			
Contributions and legacies	$ 11,297,817	$ -	$ 11,297,817
Net assets released from restrictions, operations	560,437	(560,437)	-
Total operating public support	11,858,254	(560,437)	11,297,817
Operating Revenue			
Program service revenue	85,680,088	-	85,680,088
Investment income, net of fees	15,434,783	-	15,434,783
Retail operations income	6,371,605	-	6,371,605
Rental income	470,789	-	470,789
Gain on sale of property and equipment and other settlements	6,733,144	-	6,733,144
Impairment on property and equipment	(1,189,246)	-	(1,189,246)
Change in value of split-interest annuities	931,804	(2,200)	929,604
Other	963,033	-	963,033
Total operating revenue	115,396,000	(2,200)	115,393,800
Total operating public support and revenue	127,254,254	(562,637)	126,691,617
Operating Expenses			
Program expenses	99,981,315	-	99,981,315
Management and general expenses	18,436,830	-	18,436,830
Fundraising expenses	4,003,071	-	4,003,071
Total operating expenses	122,421,216	-	122,421,216
Change in net assets before nonoperating activities	4,833,038	(562,637)	4,270,401
Nonoperating Activities			
Net assets released from restrictions, property and equipment	190,234	(190,234)	-
Restricted contributions	-	1,187,142	1,187,142
Restricted investment loss, net of fees	-	(2,751)	(2,751)
Adjustment to funding of pension plan	27,220,256	-	27,220,256
Total nonoperating activities	27,410,490	994,157	28,404,647
Change in net assets	32,243,528	431,520	32,675,048
Net Assets, Beginning	89,500,276	12,082,907	101,583,183
Net Assets, Ending	$ 121,743,804	$ 12,514,427	$ 134,258,231

See notes to consolidated financial statements

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended August 31, 2020

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

See notes to consolidated financial statements

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended August 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	$ 32,675,048	$ (4,314,411)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net unrealized gain on investments	(11,301,433)	(2,555,022)
Depreciation and amortization	4,455,856	4,691,369
Impairment and gain on sale of property and equipment	(3,309,898)	(2,105,189)
Net realized gain on investments	(2,746,110)	(4,868,673)
Net change in split-interest agreements	(1,019,980)	(306,910)
Contributions restricted for endowment	(2,767)	(357,595)
Restricted investment income, net	2,751	(45,912)
Change in beneficial interest in assets held by others	(282,282)	80,790
Adjustment to funding of pension plan	(27,220,256)	(2,217,943)
Changes in assets and liabilities:		
Client programs receivable	1,967,276	(982,672)
Interest and other receivable	(97,168)	224,181
Legacies receivable	720,239	(973,827)
Supply inventories	421,211	(584,335)
Prepaid expenses and other current assets	216,275	(642,098)
Notes receivable and other assets	(44,432)	39,226
Funds held on behalf of clients	516,032	681,083
Accounts payable	(84,475)	(929,086)
Salaries, wages, related withholdings and fringe benefits	(2,158,857)	(53,698)
Pension plan liability/asset	494,501	1,440,575
Other current liabilities	(648,092)	1,363,251
Other long-term liabilities	342,026	177,681
Net cash flows from operating activities	(7,104,535)	(12,239,215)
Cash Flows From Investing Activities		
Purchases of property and equipment	(2,286,690)	(3,754,621)
Proceeds from sale of property and equipment	23,661,683	4,468,254
Purchase of investments	(6,528,244)	(27,878,894)
Proceeds from sale of investments	5,571,800	52,566,134
Net cash flows from investing activities	20,418,549	25,400,873
Cash Flows From Financing Activities		
Net payments on line of credit	-	(9,209,128)
Principal payments on mortgage notes payable	(233,554)	(213,720)
Proceeds from issuance of other notes payable	10,000,000	-
Net restricted investment income	(2,751)	45,912
Contributions restricted for endowment	2,767	357,595
Principal payments on capital leases	(616,603)	(187,356)
Net cash flows from financing activities	9,149,859	(9,206,697)
Net change in cash and cash equivalents and restricted cash	22,463,873	3,954,961
Cash and Cash Equivalents and Restricted Cash, Beginning	16,452,608	12,497,647
Cash and Cash Equivalents and Restricted Cash, Ending	$ 38,916,481	$ 16,452,608

See notes to consolidated financial statements

Supplemental Cash Flow Disclosures	**2021**	**2020**
Cash paid for interest	$ 1,047,229	$ 857,446
Capitalized interest	$ -	$ 152,298
Noncash Investing and Financing Activities		
Purchases of property and equipment in accounts payable	$ 20,231	$ 4,005,275
Purchases of property and equipment financed with capital leases	$ 213,405	$ 755,475
Purchases of property and equipment financed with mortgage notes payable	$ 5,066,197	$ 9,482,971
Loan origination fees financed with mortgage notes payable	$ -	$ 128,936
Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Statements of Financial Position		
Cash and cash equivalents	$ 33,644,526	$ 12,529,652
Funds held on behalf of clients	2,935,058	2,287,033
Escrow deposits	2,336,897	1,635,923
Total cash and cash equivalents and restricted cash	$ 38,916,481	$ 16,452,608

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statement of Functional Operating Expenses
Year Ended August 31, 2021

	Program	Management and General	Fundraising	Total
Salaries	$ 56,070,160	$ 9,947,464	$ 1,862,227	$ 67,879,851
Payroll taxes and benefits	14,350,092	2,238,191	378,910	16,967,193
Supplies	2,924,750	96,970	124,126	3,145,846
Repairs	1,422,288	74,280	-	1,496,568
Client professional and other services	5,858,340	1,521	850	5,860,711
Staff development	451,219	632,465	27,830	1,111,514
Legal, audit and other professional services	998,568	2,331,528	1,239,248	4,569,344
Other general outside services	3,314,882	687,807	259,403	4,262,092
Travel, meals, lodging and gasoline	445,457	124,684	49,911	620,052
Rent	2,382,750	244,374	84	2,627,208
Telephone and internet services	1,215,862	212,928	17,140	1,445,930
Electricity, natural gas, water and sewer	1,470,680	160,308	2	1,630,990
Property and liability insurance	2,098,688	339,208	31,343	2,469,239
Depreciation and amortization	3,813,194	640,787	1,875	4,455,856
Interest	839,959	323,038	-	1,162,997
Medicaid assessment fees	1,050,735	-	-	1,050,735
All other	1,273,691	381,277	10,122	1,665,090
Total expenses	$ 99,981,315	$ 18,436,830	$ 4,003,071	$ 122,421,216

See notes to consolidated financial statements

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidated Statement of Functional Operating Expenses
Year Ended August 31, 2020

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

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Activities

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

Basis of Presentation

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

Cash and Cash Equivalents and Restricted Cash

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

Client Programs Receivable

Accounts receivable are uncollateralized funding source obligations which generally are payable within 30 days from the invoice or billing date. Contracts from revenues that are considered exchange transactions are recorded at an amount that management expects to receive from the net transaction price. Balances are recorded net of adjustments or discounts to determine the net transaction price. Billings for services under third-party payor programs are recorded net of estimated adjustments, if any. Historically, the Organization has collected substantially all of the consideration to which it is entitled under its contracts with customers. Subsequent adjustments, if any, are recognized as revenue when received. The adequacy of the Organization’s net realizable receivable is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivable portfolios by payor source and aging of receivables, along with a review of specific accounts. Adjustments are made as necessary.

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, 2021 and 2020.

Legacies receivable of $664,000 and $1,384,239 as of August 31, 2021 and 2020, respectively, are expected to be collected in less than one year.

Supply Inventories

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

Funds Held on Behalf of Clients

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

Investments

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

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

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

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 $2,500 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

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

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

The Organization has recorded a liability of $237,283 and $250,382 for estimated asbestos clean-up costs as of August 31, 2021 and 2020, respectively, and it is presented as other long-term liabilities in the consolidated statements of financial position.

Assets Held for Sale

All properties held for sale are recorded at historical cost net of accumulated depreciation at the time the assets were classified as held for sale or net realizable value, whichever is lower. During the year ending August 31, 2021, the Organization closed certain locations and was marketing properties for sale with net book value totaling $932,922. At August 31, 2021, assets held for sale remaining on the market had a fair value of approximately $1.2 million.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. The Organization has recorded impairment losses of $1,189,246 and $0 during the years ending August 31, 2021 and 2020, respectively.

Assets Relating to Split-Interest Agreements and Trusts

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

Assets received under split-interest agreements and trusts are recorded at their fair value. The Organization records a liability when a split-interest agreement (Unitrust, Annuity Trust and Pooled Income Fund) is established at the present value of the estimated future payments to the donor and other beneficiaries. Discount rates ranging from 4.5 percent to 6.0 percent were used to project the Due to beneficiaries and others under split interest agreements and trusts liability as of August 31, 2021 and 2020. Revenue is recorded for the difference between the fair value of the assets received and the liability.

Net Assets

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

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

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

Board Designated Net Assets

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. The Organization's Board of Directors has not designated any amounts as of August 31, 2021 and 2020.

Tax-Exempt Status

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

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

The Organization follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on the tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting during interim periods. The Organization does not believe that it has any uncertain tax positions at August 31, 2021 and 2020.

Program Service Revenue

Program service revenue consists primarily of revenues from residential habilitation and non-residential habilitation services. Residential habilitation and non-residential habilitation fee revenues are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. Contracts are signed with clients and are primarily paid by private sources or a third party payor. The Organization reviews contracts using a portfolio approach for contracts with individual clients for residential habilitation services due to similarities in contracts. In addition, the Organization reviews contracts using a portfolio approach for contracts with individual clients for non-residential habilitation services due to similarities in contracts. Performance obligations are determined based on the nature of the services provided. Residential habilitation and non-residential fee revenues are recognized as performance obligations are satisfied.

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

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

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

There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources.

Contract Balances

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

Amounts of revenue that are collected from third-party payors in advance are recognized as other current liabilities until the performance obligations are satisfied. As of August 31, 2021 and 2020, the Organization had deferred revenues from contracts with customers of approximately $244,000 and $500,000, respectively, which is included in other current liabilities in the consolidated statements of financial position. Substantially all of this deferred revenue is recognized in the subsequent month when the related services are provided. The Organization applied the practical expedient in Accounting Standards Codification 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

Retail Operations

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

Contributions

Unconditional contributions, including legacies receivable, are recognized in the period received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, whether received or made are recognized only when the conditions on which they depend are met and the promises become unconditional. The gifts are reported as net assets with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification or law that income and gains on donated funds are restricted, such income and gains are reported as contributions without donor restrictions. The Organization has conditional contributions at August 31, 2021 and 2020 of approximately $681,000 and $862,000, respectively.

Operations

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

Expense Allocation

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

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

Reclassification

For comparability, certain 2020 amounts have been reclassified to conform with classifications adopted in 2021. The reclassifications have no effect on reported amount of net assets or change in net assets.

Distributions

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

Estimates

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

Adopted Accounting Pronouncements

In 2021, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820*, Fair Value Measurement*. Adopting ASU No. 2018-13 did not have a significant impact on the consolidated financial statements of the Organization.

New Accounting Pronouncements

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

During February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the Organization's consolidated financial statements.

During March 2020, FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* ASU No. 2020-04 provides optional expedients and expectations for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. The Organization is currently assessing the effect that electing the optional expedients and exceptions included in ASU 2020-04 would have on its consolidated financial statements.

2. Liquidity and Availability of Financial Assets

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

	2021	2020
Total assets	$ 206,204,893	$ 186,523,161
Less:		
Property and equipment, net	(45,630,458)	(67,660,837)
Prepaid expenses and other current assets	(1,527,782)	(1,744,057)
Supply inventories	(370,854)	(792,065)
Notes receivable and other assets	(45,919)	(1,489)
Assets held for sale	(932,922)	-
Total financial assets	157,696,958	116,324,713
Less:		
Assets held relating to split interest agreements and trusts	(10,375,668)	(9,363,446)
Funds held on behalf of clients	(2,935,058)	(2,287,033)
Pension plan asset	(5,200,226)	-
Escrow deposits	(2,336,897)	(1,635,923)
Assets with donor restrictions	(12,514,427)	(12,082,907)
Assets relating to charitable gift annuities	(7,947,857)	(6,900,471)
Assets available for general expenditures	$ 116,386,825	$ 84,054,933

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

At August 31, 2021, the Company has a $35.0 million revolving line of credit with Bank of America, with an outstanding balance of approximately $25.8 million. The line of credit bears interest at the daily LIBOR rate plus 95 basis points. The line of credit is secured by Foundation assets, and is subject to call if pledged assets fall below $42.8 million. The Organization does not plan to increase the amount outstanding or take additional draws on the line during the next twelve months, and any action to do so would require board approval.

In 2021, in consideration of future liquidity needs, management continued to follow a board-approved five-year plan to achieve cash flow neutrality. The plan includes new real estate developments under the Cornerstone Village brand, investment in retail operations and philanthropic resources, and continuing to pursue growth in intellectual and developmental disabilities based operations.

3. Fair Value Measurements

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

As defined by current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

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

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

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

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

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

	August 31, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Investments:				
Mutual funds	$ 59,430,188	$ 59,430,188	$ -	$ -
Common and preferred stock	8,312,087	8,312,087	-	-
Church extension funds	7,616	-	7,616	-
Fixed income securities	13,708,682	13,708,682	-	-
Hedge funds	258,233	-	-	258,233
Mutual funds, charitable gift annuities	6,830,058	6,830,058	-	-
Fixed income securities, charitable gift annuities	280,493	280,493	-	-
Mutual funds, 457 plan investments	1,264,413	1,264,413	-	-
Total investments	90,091,770	$ 89,825,921	$ 7,616	$ 258,233
Money market funds, charitable gift annuities	837,306			
Total assets	$ 90,929,076			
Assets relating to split-interest agreements and trusts:				
Fixed income mutual funds	$ 4,065,441	$ 4,065,441	$ -	$ -
Equity mutual funds	6,073,627	6,073,627	-	-
Beneficial interest in assets held by others	4,384,102	-	-	4,384,102
Total investments	14,523,170	$ 10,139,068	$ -	$ 4,384,102
Money market funds	236,600			
Total assets	$ 14,759,770			

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

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

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

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

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

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.

Total purchases of Level 3 assets measured at fair value on a recurring basis were $0 during the years ending August 31, 2021 and 2020. Total sales of Level 3 assets measured at fair value on a recurring basis were $81,830 and $90,628 during the year ending August 31, 2021, and 2020, respectively.

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

Level 3 hedge funds consist of one fund at August 31, 2021 and 2020. The fund is valued based on unobservable inputs and is deemed an alternative investment. To withdraw funds from this investment, the Organization is required to submit a written request and is limited to one request per quarter. The investment company can deny the request to withdraw funds. The Organization has no unfunded commitments relating to this investment. The Organization has taken steps to liquidate this Level 3 hedge fund and plans to complete the liquidation process within the next year.

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

The Organization also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These include assets that are measured at the lower of carrying value or market, less costs to sell, and had a fair value below carrying value at August 31, 2021. There were no similar transactions during the year ending August 31, 2020.

	2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets held for sale	$ 659,560	$ -	$ 659,560	$ -
Property and equipment, net	3,650,000	-	3,650,000	-
Total	$ 4,309,560	$ -	$ 4,309,560	$ -

The valuation methodology used for assets measured at fair value on a non-recurring basis is based on either recent appraisals performed or market value. The determination of the classification is based on observable market based inputs or unobservable inputs that are corroborated by market data, which are considered to be Level 2 items.

4. Escrow Deposits

Escrow deposits include $9,861 and $8,313 as of August 31, 2021 and 2020, respectively, in escrow deposits with lenders and municipalities for construction projects for Cornerstone.

During 2021, the Organization divested of facilities and equipment in four states. As part of three separate asset purchase agreements, the Organization funded three escrow accounts totaling $624,439 as a non-exclusive source of recovery to satisfy the due performance and payment by the Organization of indemnification obligations. Unless terminated early by joint agreement of the parties or unless there are set off claims identified by the buyer, the escrows will be released back to the Organization 50% during each of the fiscal years ending August 31, 2022 and 2023.

Monthly escrow deposits are made as required by HUD for the reserve for replacements and are maintained in interest bearing accounts separate from the operating account of the HUD projects. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to the capital advance, the balance in this escrow reverts to the benefit of the project. The balances in the reserve for replacement escrow accounts were $1,410,143 and $1,335,278 as of August 31, 2021 and 2020, respectively.

HUD requires the HUD projects to remit all cash remaining, if any, after the establishment of all required escrows and reserves and the payment of all expenses and allowable disbursements to a residual receipts fund on an annual basis. Deposits are made within 90 days after year-end and are maintained in interest bearing accounts separate from the operating accounts of the HUD projects. Withdrawals may be made with permission from HUD. Upon satisfaction of the mortgage note payable or mortgage note relating to capital advance, the balance in this fund reverts to the benefit of HUD. The balances in the residual receipts escrow accounts were $285,852 and $285,732 as of August 31, 2021 and 2020, respectively.

HUD escrow deposits for insurance reserves were $6,602 and $6,600 as of August 31, 2021 and 2020, respectively.

5. Investments

Following is a summary of investments as of August 31:

	2021	2020
Common and preferred stocks	$ 8,312,087	$ 7,277,059
Fixed income securities	13,708,682	11,626,083
Mutual funds	59,430,188	48,890,506
Mutual fund, charitable gift annuities	6,830,058	5,792,589
Fixed income securities, charitable gift annuities	280,493	243,180
Church extension funds	7,616	6,742
Hedge funds	258,233	273,004
Mutual funds, 457 plan investments	1,264,413	950,954
Money market funds, charitable gift annuities	837,306	864,972
Total	$ 90,929,076	$ 75,925,089

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

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

	2021	2020
Large cap growth	22%	24%
Large cap value	22%	24%
Small/mid cap growth	1%	2%
Small/mid cap value	4%	4%
International equity	10%	11%
Long term bonds	7%	7%
Intermediate term bonds	8%	6%
Short term bonds	6%	9%
Fixed income blend	5%	6%
Cash	15%	7%

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

6. Property and Equipment

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

	Depreciable Lives	2021	2020
Land and land improvements	5-40 yrs.	$ 14,094,059	$ 16,008,716
Buildings, improvements and capitalized maintenance	5-40 yrs.	72,336,043	89,203,138
Fixed and moveable equipment	3-20 yrs.	13,055,806	17,242,958
Construction in progress	N/A	1,677,396	16,188,587
Total property and equipment		101,163,304	138,643,399
Less accumulated depreciation		(55,532,846)	(70,982,562)
Property and equipment, net		$ 45,630,458	$ 67,660,837

The amounts held in construction in progress primarily relates to costs for new or remodeled homes for operations, internally developed capitalized software, as well as mixed-use real estate projects in Minnesota, Wisconsin, and California.

The gain on sale of property and equipment of $4,983,144 for the year ending August 31, 2021 primarily relates to a sale of facilities and equipment.

7. Retirement Plans

403(b) Plan

The Organization has a contributory 403(b) defined contribution plan that covers substantially all full-time employees. Participating employees are eligible to receive an employer matching contribution, which is established annually by the Board of Directors. The contribution for the years ended August 31, 2021 and 2020 was $998,175 and $1,064,841, respectively.

Defined Benefit Plan

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

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

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

	2021	2020
Change in benefit obligation:		
Accumulated benefit obligation at beginning of year	$ 94,354,872	$ 91,901,966
Service cost	494,501	440,575
Interest cost	2,454,054	2,692,853
Actuarial (gain) loss	(15,161,625)	4,103,610
Benefits paid and administrative costs	(36,919,956)	(4,784,132)
Accumulated benefit obligation at end of year	$ 45,221,846	$ 94,354,872

	2021	2020
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 72,829,343	$ 68,599,069
Actual return on plan assets	14,512,685	9,014,406
Benefits paid and administrative costs	(36,919,956)	(4,784,132)
Fair value of plan assets at end of year	$ 50,422,072	$ 72,829,343
Funded status of the plan	$ 5,200,226	$ (21,525,529)

Since benefit accruals have been frozen, the projected benefit obligation is equal to the accumulated benefit asset obligation at August 31, 2021 and the accumulated benefit liability at August 31, 2020.

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

	2021	2020
Pension plan asset	$ 5,200,226	$ -
Pension plan liability	-	(21,525,529)
Total	$ 5,200,226	$ (21,525,529)

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

	2021	2020
Service cost	$ 494,501	$ 440,575
Interest cost	2,454,054	2,692,853
Expected return on plan assets	(4,597,591)	(4,519,723)
Recognized actuarial loss	856,120	903,929
Settlement loss*	3,801,236	-
Total net periodic benefit cost	$ 3,008,320	$ (482,366)

Service cost in 2021 and 2020 was $494,501 and $440,575, respectively. The other components of the net periodic benefit cost are $(1,287,417) and $(922,941) in 2021 and 2020, respectively. The other components of the net periodic pension cost are included in the adjustment to unfunded pension plan on the consolidated statements of activities.

Included in net assets without donor restrictions at August 31, 2021 and 2020 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized actuarial net losses of $5,168,319 and $34,913,627, respectively.

*In August of 2021, the Organization executed a lump sum payout of a significant portion of the plan assets. A summary of that settlement is below:

	Before Settlement	Settlements	After Settlement
Benefit obligation	$ (78,481,970)	$ 33,260,124	$ (45,221,846)
Plan assets	83,682,196	(33,260,124)	50,422,072
Funded status	5,200,226	-	5,200,226
Unrecognized loss	8,969,555	(3,801,236)	5,168,319
Accrued expense	$ 14,169,781	$ (3,801,236)	$ 10,368,545

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

	2022	2021
Service cost	$ 630,302	$ 494,501
Interest cost	1,177,356	2,454,054
Expected return on assets	(3,184,752)	(4,597,591)
Amortization of net loss	4,629	856,120
Total net periodic postretirement benefit costs	$ (1,372,465)	$ (792,916)

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

	2021	2020
Weighted average discount rate	2.66%	3.00%
Increase in future compensation levels	N/A	N/A
Expected long-term rate of return on assets	6.50%	6.75%

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

	2021	2020
Discount rate	2.67%	2.66%
Increase in future compensation levels	N/A	N/A

The following benefit payments are expected to be paid:

Years ending August 31:	
2022	$ 2,078,790
2023	2,037,879
2024	1,994,519
2025	2,060,576
2026	2,087,939
2027-2031	10,990,923

Management is not able to appropriately determine the exact amount that will be contributed to this retirement plan during the fiscal year ending August 31, 2022. It is reasonably possible that the above estimate of subsequent year's net periodic post retirement benefit cost will change as it is based on no contributions to the plan in the next fiscal year.

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

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

	August 31, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Common stocks	$ 35,098,928	$ 35,098,928	$ -	$ -
Fixed income	14,612,641	14,612,641	-	-
Hedge funds	115,910	-	-	115,910
Total investments	49,827,479	$ 49,711,569	$ -	$ 115,910
Money market funds	594,593			
Total assets	$ 50,422,072			

	August 31, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Common stocks	$ 50,539,559	$ 50,539,559	$ -	$ -
Fixed income	20,418,404	20,418,404	-	-
Hedge funds	122,541	-	-	122,541
Total investments	71,080,504	$ 70,957,963	$ -	$ 122,541
Money market funds	1,748,839			
Total assets	$ 72,829,343			

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

	2021	**2020**
Large cap growth	25%	26%
Large cap value	28%	28%
Small/mid cap growth	1%	2%
Small/mid cap value	5%	4%
International equity	11%	10%
Long term bonds	7%	7%
Intermediate term bonds	9%	6%
Short term bonds	7%	9%
Fixed income blend	6%	6%
Cash	1%	2%

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

Total purchases of Level 3 assets measured at fair value on a recurring basis were $0 during the years ending August 31, 2021 and 2020. Total sales of Level 3 assets measured at fair value on a recurring basis were $36,730 and $40,680 during the years ending August 31, 2021 and 2020, respectively.

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

8. Assets Relating to Split-Interest Agreements and Trusts

The Organization has four types of split-interest agreements.

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

Bethesda Lutheran Home Pooled Income Funds (the Funds) acts as vehicles for giving to the Organization. The Organization has been designated trustee for the Funds. Contributions deposited into the Funds are invested and reinvested by the trustee in accordance with a trust agreement. Investment earnings, as defined in the trust agreement, are distributed quarterly, in the month following the end of the quarter, to donor-designated beneficiaries based upon the donor's pro rata share (units of participation) in the total investment pool. Upon the death of the last beneficiary, the remaining interest in the donor's contribution is severed from the Funds, any other identified beneficiaries are paid in accordance with the terms of the agreement and any remaining funds become available for the operation of the Organization. The funds had a balance of $0 as of August 31, 2021.

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

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

9. Line of Credit

The Organization has a $35,000,000 line of credit with Bank of America with a variable interest rate of LIBOR plus 0.95 percent (at August 31, 2021 and 2020 the interest rate was 1.03 percent and 1.11 percent, respectively). The line of credit is secured by a guarantee of the Foundation and collateral, which consists of a portion of the Foundation's investments.

The amount borrowed on the line of credit was $25,790,872 at August 31, 2021 and 2020. Interest expense on the line of credit was $280,487 and $710,640 for the years ended August 31, 2021 and 2020, respectively.

10. Mortgage Notes Payable

Mortgage notes payable consists of the following at August 31:

	2021	2020
Construction note payable to LCEF, $14.7 million delayed-draw construction loan, bearing interest at an initial rate of 4.75 percent annually. The agreement includes a conversion to a permanent financing agreement with a conversion date of September 23, 2021 and a maturity date of August 1, 2031. Beginning in September 2019, payments of interest only are due on the disbursed principal balance outstanding. Beginning in September 2021, the loan agreement calls for 12 monthly payments at 4.38 percent, followed by 107 monthly payments of principal and interest at the LCEF Cost of Funds interest rate plus 2.50 percent, with a final 120th balloon payment of all remaining principal and interest. The note will be amortized over a period of 360 months. The note payable is secured by a mortgage on the property and includes a $2.0 million limited guarantee provided by the Foundation. See footnote 21 for further details.	$ 14,678,104	$ 9,611,907
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of $12,803 including interest at 9.25 percent, due April 2022.	89,310	227,658
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of $3,633 including interest at 8.38 percent, due November 2031.	299,286	317,005
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of $3,881 including interest at 8.38 percent, due May 2031.	309,649	329,386
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of $1,140 including interest at 9.00 percent due February 2029.	74,423	81,077
Mortgage note payable to HUD, secured by the real property, payable in monthly installments of $4,334 including interest at 9.25 percent, due June 30, 2023.	87,388	129,185
Mortgage note payable to HUD with monthly payments of $1,602 including interest at 8.13 percent due February 28, 2031, secured by a mortgage on the Organization's land, buildings, and equipment.	126,963	135,488
Note payable to the Mental Health Division-State of Oregon, unsecured, $28 to $86 is forgiven each month that the Organization uses the property for its stated purpose through May 2021.	-	774
Total	15,665,123	10,832,480
Less current portion	(418,874)	(234,184)
Long-term portion	15,246,249	10,598,296
Less loan costs, net of accumulated amortization	-	(128,936)
Total long-term portion, net	$ 15,246,249	$ 10,469,360

Interest expense on mortgage notes payable was $811,518 and $119,717 for the years ended August 31, 2021 and 2020, respectively. Capitalized interest on the construction loan payable was $0 and $152,298 for the years ended August 31, 2021 and 2020, respectively.

The Organization is subject to certain restrictions and covenants relating to their mortgage notes payable. The Organization represents that it is in compliance with or has received a waiver for all covenants as of August 31, 2021 and 2020.

Principal requirements on mortgage notes payable for years ending after August 31, 2021 are as follows:

Years ending August 31:	
2022	$ 418,874
2023	341,294
2024	316,710
2025	334,721
2026	353,837
Thereafter	13,899,687
Total	$ 15,665,123

11. Other Notes Payable

On March 29, 2021, the Organization received loan proceeds in the amount of $10,000,000 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Economic Aid Act and the American Rescue Plan Act of 2021, and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a “covered period” (between eight and twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities among other expenses. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the borrower’s loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. The Organization may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

When legal release is received, the Organization will record the amount forgiven as forgiveness income within its consolidated statement of activities. If any portion of the Organization’s PPP loan is not forgiven, the Organization will be required to repay that portion, plus interest, over 5 years in equal installments with the repayment term beginning at the time that the SBA remits the amount forgiven to the Organization’s lender.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

12. Self-Insurance

The Organization has a self-insurance program for health coverage of employees. The Organization self insures benefits under its health plan up to a stop loss of $250,000 per individual, and up to a maximum liability in the aggregate that fluctuates based on the number of participants. Benefit claims are accrued as incurred. The Organization has recorded a liability for unpaid claims of $753,683 and $866,003 as of August 31, 2021 and 2020, 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.

13. Net Assets With Donor Restrictions

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

	2021	2020
Restricted due to time or purpose:		
Time restricted	$ -	$ 2,201
Purpose restricted	2,353,296	2,204,625
Irrevocable trust held by a third party	253,482	253,482
Held by Lutheran Church Extension Fund, Missouri Synod	2,358,791	2,076,508
Restricted due to requirements to hold in perpetuity:		
Restricted for endowment	5,777,030	5,774,263
Held by Good Shepherd Fund	1,771,828	1,771,828
Total	$ 12,514,427	$ 12,082,907

14. Endowment

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

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

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

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

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:

	2021				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gifts	Accumulated Gain (Losses)	Total	Total Endowment
Donor-restricted endowment funds	$ -	$ 5,777,030	$ 149,509	$ 5,926,539	$ 5,926,539

	2020				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gifts	Accumulated Gain (Losses)	Total	Total Endowment
Donor-restricted endowment funds	$ -	$ 5,774,263	$ 157,327	$ 5,931,590	$ 5,931,590

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

	2021				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gifts	Accumulated Gain (Losses)	Total	Total Endowment
Endowment net assets, beginning of year	$ -	$ 5,774,263	$ 157,327	$ 5,931,590	$ 5,931,590
Investment income, net of fees	-	-	965,581	965,581	965,581
Contributions	-	2,767	-	2,767	2,767
Amounts appropriated for expenditure	-	-	(973,399)	(973,399)	(973,399)
Endowment net assets, end of year	$ -	$ 5,777,030	$ 149,509	$ 5,926,539	$ 5,926,539

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

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

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of August 31, 2021 and 2020. These deficiencies would result from unfavorable market fluctuations that occurred shortly after the investment of new endowment contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in the endowment.

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

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

15. Leases

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

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

Years ending August 31:	
2022	$ 1,697,601
2023	333,826
2024	98,329
2025	38,911
2026	1,500
Thereafter	88,500
Total	$ 2,258,667

Rent expense on these operating leases was $2,627,208 and $2,865,453 for the years ended August 31, 2021 and 2020, respectively.

In fiscal year 2020 and 2021, the Organization entered into capital leases agreements for the use of vehicles. The capitalized cost of the lease property at August 31, 2021 and 2020 was $893,755 and $1,294,184, respectively. Amortization expense on capital leases is included with depreciation expense. Accumulated amortization was $179,422 and $145,311 as of August 31, 2021 and 2020, respectively.

Capital lease obligations are included in other current liabilities and other long-term liabilities on the consolidated statements of financial position. Interest expense related to capital leases was $28,411 and $25,466 for the years ended August 31, 2021 and 2020, respectively.

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

2022	$ 141,139
2023	141,139
2024	118,644
2025	61,257
2026	206,573
Total future minimum lease payments	668,752
Less amount representing interest	(43,599)
Total	625,153
Less current portion	(123,198)
Long-term capital lease obligation	$ 501,955

16. Fiduciary Responsibilities

The Foundation acts as trustee for the Bethesda Lutheran Home Pooled Income Funds and certain Unitrust Funds and Annuity Trusts (the 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 $10,375,668 and $9,363,446 as of August 31, 2021 and 2020, respectively. The amount due to beneficiaries as of August 31, 2021 and 2020 was $3,901,281 and $3,696,964, 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 $7,947,857 and $6,900,741 as of August 31, 2021 and 2020, respectively. The amount due to beneficiaries relating to gift annuities was $3,862,141 and $4,074,216 as of August 31, 2021 and 2020, respectively, and is included in due to beneficiaries and others under split interest agreements and trusts on the consolidated statements of financial position.

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

17. Capital Advances

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

18. Commitments and Contingencies

Financial Awards from Grantors

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

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.

Commercial Real Estate Purchase

Bethesda Cornerstone Village, LLC, through a subsidiary (Cornerstone Village-Wauwatosa, LLC), has committed to purchase real estate in Wauwatosa, Wisconsin whereby Bethesda Cornerstone Village, LLC has a majority interest in a joint venture in which the property will be developed into a mixed-use rental and commercial property. Bethesda Cornerstone Village, LLC and its sister company the Foundation are guaranteeing a loan on the project for 51% of approximately $2.3 million.

Bethesda Cornerstone Village, LLC has committed to purchase real estate in Oakdale, Minnesota for $595,000 by November 30, 2021.

19. Revenues

Disaggregation of Revenue

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

	2021	2020
Payor source:		
Residential:		
Medicaid	$ 73,712,685	$ 82,948,228
Private	4,930,706	7,011,868
Other	742,510	543,415
Total residential	79,385,901	90,503,511
Non-residential:		
Medicaid	4,087,895	4,074,329
Private	34,335	31,550
Other	394,131	84,226
Total non-residential	4,516,361	4,190,105
Total revenues from contracts with customers	83,902,262	94,693,616
Revenue from leases	1,741,312	1,768,688
Other revenue	36,514	236,272
Total program service revenues	$ 85,680,088	$ 96,698,576

Substantially, all of the program service revenues from contracts with customers is recognized over time as the related performance obligations are satisfied for the year ended August 31, 2021 and 2020. Additionally, substantially all amounts billed are traditionally fully collected.

20. Concentrations

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

The Organization grants credit without collateral to its residents, most of whom are insured under third-party payor agreements. Substantially all of the client programs receivable at August 31, 2021 and 2020 were from governmental third-party payors.

The Organization receives Medicaid funding from programs in various states. Medicaid reimbursement methodology varies from state to state. Approximately 91% and 90% of program service revenue was generated from services to Medicaid beneficiaries in 2021 and 2020, respectively. The Organization's client programs accounts receivable primarily consists of amounts due from Medicaid at August 31, 2021 and 2020.

21. Subsequent Events

The Organization has evaluated subsequent events through December 29, 2021, which is the date that the consolidated financial statements were approved and available to be issued.

Subsequent to August 31, 2021, the Organization converted the LCEF construction loan from interest only at 4.75% annually to a 30-year amortization term loan on principal of $14,707,135 with payments of an initial interest payment of $46,447, then $73,431 per month at 4.75% interest beginning October 23, 2021 for 12 months, followed by 107 monthly payments at LCEF's Cost of Funds interest rate plus 2.50% adjusted annually and a final balloon payment of all unpaid principal and interest on the final 120th payment and maturity date of September 23, 2031.

Subsequent to year-end, the Board of Directors of Bethesda Lutheran Communities, Inc., which maintains the Bethesda Lutheran Communities, Inc. Pension Trust (the Plan) recommended termination of the Plan. Effective October 31, 2021, participants in the Plan have various distribution options depending on their class. All accrued benefits of the Plan will be paid directly, or through annuity contracts on behalf of participants in the Plan to effect the full distribution.

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidating Statement of Financial Position
August 31, 2021

	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 17,160,783	$ 14,788,103	$ 1,695,640	$ -	$ 33,644,526
Accounts receivable:					
Client programs	6,481,304	-	3,423	-	6,484,727
Interest and other	351,707	340,800	19,540	-	712,047
Legacies	664,000	-	-	-	664,000
Intercompany	8,303,498	-	99,491	(8,402,989)	-
Supply inventories	370,854	-	-	-	370,854
Prepaid expenses and other current assets	1,506,389	-	21,393	-	1,527,782
Assets held for sale	932,922	-	-	-	932,922
Total current assets	35,771,457	15,128,903	1,839,487	(8,402,989)	44,336,858
Assets Whose Use is Limited or Restricted					
Beneficial interest in subsidiaries	106,096,832	-	-	(106,096,832)	-
Funds held on behalf of clients	2,850,991	-	84,067	-	2,935,058
Escrow deposits	2,327,036	-	9,861	-	2,336,897
Other donor restricted assets	30,631	-	-	-	30,631
Total assets whose use is limited or restricted	111,305,490	-	93,928	(106,096,832)	5,302,586
Other Assets					
Investments	4,088,293	86,840,783	-	-	90,929,076
Assets relating to split-interest agreements and trusts	4,384,102	10,375,668	-	-	14,759,770
Notes receivable and other assets	45,919	-	-	-	45,919
Pension plan asset	5,200,226	-	-	-	5,200,226
Total other assets	13,718,540	97,216,451	-	-	110,934,991
Property and Equipment, Net	28,179,413	-	17,698,749	(247,704)	45,630,458
Total assets	$ 188,974,900	$ 112,345,354	$ 19,632,164	$ (114,747,525)	$ 206,204,893

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidating Statement of Financial Position
August 31, 2021

	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	$ 1,978,437	$ 60,000	$ 30,749	$ -	$ 2,069,186
Intercompany accounts payable	3,596,360	6,290	4,800,339	(8,402,989)	-
Salaries, wages, related withholdings and fringe benefits	5,479,716	-	-	-	5,479,716
Line of credit	25,790,872	-	-	-	25,790,872
Current portion of mortgage notes payable	192,380	-	226,494	-	418,874
Other current liabilities	811,469	-	67,655	-	879,124
Total current liabilities	37,849,234	66,290	5,125,237	(8,402,989)	34,637,772
Long-Term Liabilities					
Due to beneficiaries and others under split-interest agreements and trusts	1,588,340	6,175,082	-	-	7,763,422
Mortgage notes payable	794,639	-	14,451,610	-	15,246,249
Other notes payable	10,000,000	-	-	-	10,000,000
Funds held on behalf of clients	2,191,376	-	62,467	-	2,253,843
Other long-term liabilities	2,045,376	-	-	-	2,045,376
Total long-term liabilities	16,619,731	6,175,082	14,514,077	-	37,308,890
Total liabilities	54,468,965	6,241,372	19,639,314	(8,402,989)	71,946,662
Net Assets					
Without donor restrictions	121,991,508	100,326,952	(152,005)	(100,422,651)	121,743,804
With donor restrictions	12,514,427	5,777,030	144,855	(5,921,885)	12,514,427
Total net assets	134,505,935	106,103,982	(7,150)	(106,344,536)	134,258,231
Total liabilities and net assets	$ 188,974,900	$ 112,345,354	$ 19,632,164	$ (114,747,525)	$ 206,204,893

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended August 31, 2021

	Without Donor Restrictions				
	Bethesda	**Foundation**	**Cornerstone**	**Eliminations**	**Consolidated**
Operating Public Support					
Contributions and legacies	$ 8,618,584	$ 2,591,139	$ 88,094	$ -	$ 11,297,817
Net assets released from restrictions, operations	537,075	-	23,362	-	560,437
Total operating public support	9,155,659	2,591,139	111,456	-	11,858,254
Operating Revenue					
Program service revenue	85,680,088	-	-	-	85,680,088
Investment income, net of fees	440,629	14,994,152	2	-	15,434,783
Retail operations income	6,371,605	-	-	-	6,371,605
Rental income	116,988	-	450,830	(97,029)	470,789
Gain on sale of property and equipment and other settlements	6,440,258	-	292,886	-	6,733,144
Impairment on property and equipment	(1,189,246)	-	-	-	(1,189,246)
Change in value of split-interest annuities	(82,869)	1,014,673	-	-	931,804
Change in beneficial interest in subsidiaries	23,389,214	-	-	(23,389,214)	-
Other	880,727	3,066	79,240	-	963,033
Total operating revenue	122,047,394	16,011,891	822,958	(23,486,243)	115,396,000
Total operating public support and revenue	131,203,053	18,603,030	934,414	(23,486,243)	127,254,254
Operating Expenses					
Program expenses	98,104,309	-	1,982,577	(105,571)	99,981,315
Management and general expenses	17,245,988	-	1,190,842	-	18,436,830
Fundraising expenses	3,962,218	40,853	-	-	4,003,071
Total operating expenses	119,312,515	40,853	3,173,419	(105,571)	122,421,216
Change in net assets before nonoperating activities	11,890,538	18,562,177	(2,239,005)	(23,380,672)	4,833,038
Nonoperating Activities					
Net assets released from restrictions, property and equipment	4,850	-	185,384	-	190,234
Adjustment to funding of pension plan	27,220,256	-	-	-	27,220,256
Total nonoperating activities	27,225,106	-	185,384	-	27,410,490
Change in net assets before equity transfers	39,115,644	18,562,177	(2,053,621)	(23,380,672)	32,243,528
Equity transfers	(6,880,658)	6,513,791	366,867	-	-
Change in net assets	32,234,986	25,075,968	(1,686,754)	(23,380,672)	32,243,528
Net Assets, Beginning	89,756,522	75,250,984	1,534,749	(77,041,979)	89,500,276
Net Assets, Ending	$ 121,991,508	$ 100,326,952	$ (152,005)	$ (100,422,651)	$ 121,743,804

Bethesda Lutheran Communities, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended August 31, 2021

	With Donor Restrictions				
	Bethesda	Foundation	Cornerstone	Eliminations	Consolidated
Operating Public Support					
Net assets released from restrictions, operations	$ (537,075)	$ -	$ (23,362)	$ -	$ (560,437)
Operating Revenue					
Change in value of split-interest annuities	-	(2,200)	-	-	(2,200)
Change in beneficial interest in subsidiaries	(30,962)	-	-	30,962	-
Total operating revenue	(30,962)	(2,200)	-	30,962	(2,200)
Total operating public support and revenue	(568,037)	(2,200)	(23,362)	30,962	(562,637)
Nonoperating Activities					
Net assets released from restrictions, property and equipment	(4,850)	-	(185,384)	-	(190,234)
Restricted contributions	1,007,158	2,767	177,217	-	1,187,142
Restricted investment loss, net of fees	(2,751)	-	-	-	(2,751)
Total nonoperating activities	999,557	2,767	(8,167)	-	994,157
Change in net assets	431,520	567	(31,529)	30,962	431,520
Net Assets, Beginning	12,082,907	5,776,463	176,384	(5,952,847)	12,082,907
Net Assets, Ending	$ 12,514,427	$ 5,777,030	$ 144,855	$ (5,921,885)	$ 12,514,427