# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES

### **CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES TABLE OF CONTENTS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT	2
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	2
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



#### INDEPENDENT AUDITORS' REPORT

Board of Directors Lutheran Social Service of Minnesota and Affiliates St. Paul, Minnesota

We have audited the accompanying consolidated statements of financial position of Lutheran Social Service of Minnesota and Affiliates (the Organization) as of September 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization at September 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Larson Allen LLP Larson Allen LLP

Minneapolis, Minnesota January 26, 2011

# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2010 AND 2009

	2010					
400570	Lutheran Social Service	LSS Park Avenue Apartments LP	LSS Park Avenue Apartments LP Eliminations	Lutheran Social Service Consolidated		
ASSETS						
CURRENT ASSETS  Cash and Cash Equivalents  Pledges Receivable  Accounts Receivable  Other Current Assets	\$ 9,279,296 528,621 8,244,133 484,967	\$ 198,273 - 8,073 6,990	(94,174)	\$ 9,477,569 528,621 8,158,032 491,957		
Total Current Assets	18,537,017	213,336	(94,174)	18,656,179		
Net Land, Buildings and Equipment Investments	32,471,736 2,758,493	7,860,462 -	(152,000) (86,000)	40,180,198 2,672,493		
Intangible Assets: Goodwill	1,079,207	-	-	1,079,207		
Long-Term Pledges Receivable	124,446	-	-	124,446		
Other Assets Limited as to Use	54,876	80,973	-	135,849		
Other Assets Loan Receivable	1,208,051 11,100,529	282,750	(629,000)	1,490,801 10,471,529		
Beneficial Interest in Perpetual Trust	2,435,456			2,435,456		
Total Assets	\$ 69,769,811	\$ 8,437,521	\$ (961,174)	\$ 77,246,158		
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES  Accounts Payable, Accrued Liabilities and Deferred Income Conditional Grants, Current Accrued Payroll, Benefits, Taxes, and Withholdings	\$ 4,463,427 109,354 7,029,867	\$ 126,199 -	\$ (94,174) -	\$ 4,495,452 109,354 7,029,867		
Borrowing Under Lines of Credit		-	-	-		
Current Portion of Long-Term Debt	1,115,663	-	(04.474)	1,115,663		
Total Current Liabilities	12,718,311	126,199	(94,174)	12,750,336		
Accrued Pension Liability Obligation under Trust Agreement Conditional Grants, Long Term Asset Retirement Obligation Long-Term Debt, Less Current Portion	15,967,578 898,959 2,088,245 3,753 18,876,052	- - - 1,623,956	- - - - (629,000)	15,967,578 898,959 2,088,245 3,753 19,871,008		
Total Liabilities	50,552,898	1,750,155	(723,174)	51,579,879		
NET ASSETS Unrestricted Unrestricted - Noncontrolling Interest in LSS Park	(1,994,466)	-	(238,000)	(2,232,466)		
Avenue Apartments LP Temporarily Restricted Permanently Restricted	17,446,127 3,765,252	6,687,366	-	6,687,366 17,446,127 3,765,252		
Total Net Assets	19,216,913	6,687,366	(238,000)	25,666,279		
Total Liabilities and Net Assets	\$ 69,769,811	\$ 8,437,521	\$ (961,174)	\$ 77,246,158		

Lutheran Social Service		LSS Park I Avenue Apartments LP		eran Social		Apa	SS Park Avenue irtments LP minations	heran Social Service onsolidated
\$	6,988,951 675,493 9,549,122 440,968 17,654,534	\$	208,342 - 6,985 6,536 221,863	\$	(441,818) - (441,818)	\$ 7,197,293 675,493 9,114,289 447,504 17,434,579		
	33,420,239 2,468,900		8,094,081 -		(152,000)	41,362,320 2,468,900		
	729,207		-		-	729,207		
	251,537		<b>-</b>		-	251,537		
	80,522		77,148		-	157,670		
	1,088,297 11,100,529		-		(86,000) (629,000)	1,002,297 10,471,529		

\$ (1,308,818)

2,420,016

\$ 69,213,781

2009

\$ 4,285,743 112,926	\$ 1,126,056 -	\$ (1,070,818)	\$ 4,340,981 112,926
5,934,261	-	-	5,934,261
 1,023,400 11,356,330	 1,126,056	 (1,070,818)	1,023,400 11,411,568
14,487,934 866,931	-	-	14,487,934 866,931
2,281,832 3,508 19,458,972	- - 960,540	- -	2,281,832 3,508 20,419,512
48,455,507	2,086,596	 (1,070,818)	 49,471,285
(603,884)	-	-	(603,884)
- 17,613,010 3,749,148	 6,306,496 - -	 (238,000)	6,068,496 17,613,010 3,749,148
20,758,274	6,306,496	 (238,000)	26,826,770
\$ 69,213,781	\$ 8,393,092	\$ (1,308,818)	\$ 76,298,055

\$ 8,393,092

2,420,016

76,298,055

# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010					
		Temporarily				
	Unrestricted	Restricted	Restricted	Total		
REVENUE AND PUBLIC SUPPORT						
Revenue: Government Fees and Grants	\$ 73,803,807	\$ 782,362	\$ -	\$ 74,586,169		
Client Fees and Reimbursed Services	11,066,338		φ - -	11,070,013		
Investment Income (Loss)	21,824	,	_	43.764		
Other	474,588		-	482,583		
Total Revenue	85,366,557		-	86,182,529		
Public Support:						
Contributions	1,674,374		664	2,637,187		
Grants (Nongovernmental)	426,232		-	2,279,024		
Church	947,376	· ·	-	991,155		
United Way	1,134,864		664	1,134,864		
Total Public Support	4,182,846	2,858,720	004	7,042,230		
Net Assets Released from Restrictions	3,985,273	(3,985,273)				
Total Revenue and Public Support	93,534,676	(310,581)	664	93,224,759		
EXPENSES						
Program Service:	26 426 546			00 400 540		
Services for Children / Youth / Family / CFCL Services for Seniors	26,436,516	-	-	26,436,516		
Services for People with Disabilities	13,411,469 43,517,912	-	-	13,411,469 43,517,912		
Total Program Service Expenses	83,365,897			83,365,897		
Support Service:	03,303,037	_	_	05,505,097		
Management and General	8,471,052	_	_	8,471,052		
Fund Raising	1,739,210		=	1,739,210		
Total Support Service Expenses	10,210,262			10,210,262		
Total Expenses	93,576,159		_	93,576,159		
CHANGE IN NET ASSETS - OPERATIONS	(41,483)	(310,581)	664	(351,400)		
NON-OPERATING						
Pass-Through Revenues	5,181,326		-	5,181,326		
Pass-Through Expenditures	(5,181,326)		-	(5,181,326)		
Additional Pension Increase:						
Current Period	(1,470,746)	-	-	(1,470,746)		
Change in Value of Split Interest Agreements	13,560	44,825	<u>-</u>	58,385		
Change in Value of Trusts	400.000	- 00.070	(56,162)	(56,162)		
Change in Value of Investments	108,090	98,873	71,602	278,565		
Noncontrolling Interest in LSS Park Avenue Apartments LP	380,867			380,867		
Change in Net Assets Non-Operating	(968,229)		15,440	(809,091)		
CHANGE IN NET ASSETS	(1,009,712)		16,104	(1,160,491)		
	,	,				
Net Assets - Beginning of Year	5,464,612	17,613,010	3,749,148	26,826,770		
NET ASSETS - END OF YEAR	\$ 4,454,900	\$ 17,446,127	\$ 3,765,252	\$ 25,666,279		

		-		009			
	Temporarily Permanently					Tatal	
	Inrestricted		Restricted		Restricted		Total
\$	70,665,487	\$	110,883	\$	_	\$	70,776,370
Ψ	11,423,440	Ψ	110,005	Ψ	_	Ψ	11,423,440
	51,811		(41,418)				10,393
			, ,		-		495,157
	477,675 82,618,413		17,482 86,947				
	02,010,413		86,947		-		82,705,360
	1,393,467		2,415,290		601		3,809,358
	1,222,569		2,258,385		001		3,480,954
	962,737		51,538		-		1,014,275
	1,630,653		31,330		-		1,630,653
			4 705 010		601		
	5,209,426		4,725,213		601		9,935,240
	4,713,403		(4,713,403)		_		_
					601		02 640 600
	92,541,242		98,757		601		92,640,600
	25,980,720		_		_		25,980,720
	14,070,055		_		_		14,070,055
	42,802,510		_		_		42,802,510
	82,853,285				<del></del>		82,853,285
	02,000,200						02,000,200
	8,009,692		-		-		8,009,692
	1,570,958		-		_		1,570,958
	9,580,650		-		-		9,580,650
	92,433,935		<del></del>				92,433,935
_	32,400,000						32,400,000
	107,307		98,757		601		206,665
	,		•				,
	5,985,347		-		-		5,985,347
	(5,985,347)		-		-		(5,985,347)
	=		=		-		-
	(2,659,779)		-		-		(2,659,779)
	2.044		(47.054)				(42.240)
	3,911		(17,251)		(6E0 902)		(13,340)
	(62.640)		-		(650,892)		(650,892)
	(63,642)		-		-		(63,642)
	(588,792)		_		_		(588,792)
	(648,523)		(17,251)		(650,892)		(1,316,666)
				-			
	(3,200,995)		81,506		(650,291)		(3,769,780)
	8,665,607		17,531,504		4,399,439		30,596,550
\$	5,464,612	\$	17,613,010	\$	3,749,148	\$	26,826,770

# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED SEPTEMBER 30, 2010 AND 2009

2010 Support Services Program Management Fund Services and General Raising Total \$ 37,954,879 4,813,987 \$ 911,936 \$ 43,680,802 Salaries **Employee Benefits and Payroll Taxes** 10,768,972 1,339,568 237,501 12,346,041 Total Personnel Costs 48,723,851 6,153,555 1,149,437 56,026,843 Professional Fees and **Contract Services** 1,614,656 657,191 74.698 2,346,545 Supplies 739,757 19,559 5,803 765,119 Communications 1,312,680 286,369 292,434 1,891,483 Occupancy 4,522,192 541,803 93,707 5,157,702 Equipment 530,900 153,735 31,781 716,416 Transportation 2,233,505 90,717 29,637 2,353,859 Staff Development 595,878 321,376 41,034 958,288 Client and Volunteer Expense 20,620,978 20,579,620 34,682 6,676 Other 502,624 120,108 14,003 636,735 **Total Expense** Before Depreciation 81,355,663 8,379,095 1,739,210 91,473,968 Depreciation 2,010,234 91,957 2,102,191 **Total Expense** \$ 83,365,897 \$ 8,471,052 \$ 1,739,210 \$ 93,576,159

2009

		.00	
Program	Management	Fund	
Services	and General	Raising	Total
\$ 37,182,154	\$ 4,512,054	\$ 765,165	\$ 42,459,373
11,308,261	1,210,078	189,043	12,707,382
48,490,415	5,722,132	954,208	55,166,755
1,770,537	671,339	180,010	2,621,886
796,270	26,309	5,022	827,601
1,277,406	229,416	227,167	1,733,989
4,274,366	543,396	98,754	4,916,516
537,411	148,619	25,556	711,586
2,315,749	72,978	15,311	2,404,038
631,407	362,883	44,483	1,038,773
20,095,693	21,218	10,323	20,127,234
816,282	111,766	10,124	938,172
81,005,536	7,910,056	1,570,958	90,486,550
1,847,749	99,636	-	1,947,385
\$ 82,853,285	\$ 8,009,692	\$ 1,570,958	\$ 92,433,935

# LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010		2009	
CASH FLOWS FROM OPERATING ACTIVITIES			_	
Change in Net Assets	\$	(1,160,491)	\$	(3,769,780)
Adjustments to Reconcile Change in Net Assets to Cash and				
Cash Equivalents Provided by Operating Activities:		(440.754)		12 240
Change in Value of Split Interest Agreements		(119,754)		13,340
Change in Value of Perpetual Trust		(179,648)		84,773 229
Asset Retirement Obligation		245		_
Adjustment for Pension Liability		1,479,644 (463,691)		3,774,717
Amortization of Deferred Gain from Tax Credit Financing Noncash Donations of Low Interest Loans		(463,691)		(811,459) (131,259)
Restricted Contributions for Long-Lived Assets, Including		(193,360)		(131,239)
Permanently Restricted Funds				(109,970)
·		(160 212)		, ,
Bad Debt Expense		(160,212)		100,351
Realized and Unrealized (Gain) Loss on Investments		(147,129)		82,895
Depreciation		2,102,191		1,947,385
Amortization of Capital Lease Assets		228,101		-
Amortization		43,745		24,470
Loss on Sale of Land, Building and Equipment		54,806		84,327
Decrease in Receivables		1,390,431		4,415,317
(Increase) Decrease in Other Assets		(36,683)		149,497
Increase (Decrease) in Current Liabilities		1,246,505		(2,145,077)
Net Cash Provided by Operating Activities		4,084,474		3,709,756
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Investments		(226,478)		(510,316)
Acquisition of Intangible Assets - ESI Purchase		(350,000)		-
Investment in Park Ave Apartments		(18,564)		-
Proceeds from Sale of Investments		116,039		1,031,232
Proceeds from Sale of Property and Equipment		497,253		98,564
Capital Expenditures		(931,798)		(5,957,365)
Net Cash Used by Investing Activities		(913,548)		(5,337,885)
CASH FLOWS FROM FINANCING ACTIVITIES				
Long-Term Debt Payments		(1,069,003)		(3,665,885)
Net Change in Line of Credit Borrowings		-		(841,416)
Proceeds from Issuance of Debt		14,145		3,615,478
Distribution from the perpetual trust		164,208		566,119
Contributions for Long-Lived Assets		-		109,970
Net Cash Used by Financing Activities		(890,650)		(215,734)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,280,276		(1,843,863)
Cash and Cash Equivalents - Beginning of Year		7,197,293		9,041,156
CASH AND CASH EQUIVALENTS - END OF YEAR	\$	9,477,569	\$	7,197,293
			Ť	
SUPPLEMENTAL INFORMATION				
Cash Paid for Interest	\$	361,942	\$	324,975
NON-CASH TRANSACTIONS				
Capital assets purchased with capital leases	\$	1,002,025	\$	-
,		,,		

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Organization**

Lutheran Social Service of Minnesota and Affiliates (the Organization) is the largest statewide private social service agency in Minnesota and is affiliated with the six Minnesota synods of the Evangelical Lutheran Church in America. The consolidated financial statements of the Organization include:

- Lutheran Social Service of Minnesota Foundation
- Rezek House LLC
- LSS Townhomes LLC
- LSS Supportive Housing LLC
- Partners in Community Supports, Inc.
- CFCL Lending LLC
- CFCL LLC
- LSS Development LLC
- LSS Park Avenue Apartments LP

Program services are grouped into three service categories, which are:

- Children, Youth, Families and the Center for Changing Lives
- Seniors
- People with Disabilities.

The Organization has 350 program units in over 300 locations in the State of Minnesota that provided services to more than 100,000 persons in 2010.

#### **Basis of Presentation**

Net assets and revenues, support, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Organization and changes therein are classified into the following three categories:

<u>Unrestricted</u> – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

<u>Temporarily Restricted</u> – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

<u>Permanently Restricted</u> – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes. For endowments, the Organization classifies as permanently restricted net assets the original value of the gifts to the endowment and the value of subsequent gifts to the endowment.

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Presentation (Continued)**

Revenues are reported as increase in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decrease in unrestricted net assets. The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

#### **Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times such deposits may be in excess of FDIC insurance limits. At times, the investment portfolio may contain cash and cash equivalents that are included in investments in the consolidated statement of financial position.

### **Investments**

The Organization invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported.

### **Pledges Receivable**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional pledges are not included as support until such time as the conditions are substantially met. Management's estimate of the allowance for doubtful accounts was \$77,735 and \$-0- at September 30, 2010 and 2009, respectively. Long-term pledge receivables are recorded net of discounts of \$5,574 and \$13,569 as of September 30, 2010 and 2009, respectively.

### **Account Receivables**

The Organization provides an allowance for uncollectible accounts based on the reserve method using management's judgment and the Organization's approved policy. Payment for services is required within 30 days of receipt of invoice. Accounts past due for more than 30 days are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the Organization's policy as well as historical experience of the Organization. The Organization policy is based on determined percentages of outstanding receivables by age of the balance. When all collection efforts have been exhausted, the receivable is written off against the related reserve. At September 30, 2010 and 2009, the allowance for uncollectible accounts was \$281,766 and \$445,093, respectively.

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Net Land, Buildings and Equipment

Property and equipment acquisitions are recorded at cost. Donated items are recorded at fair value on the date received. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization depreciates such assets over their estimates useful life, and releases such restrictions as to use by annually transferring amounts from temporarily restricted funds to unrestricted funds in equal to amounts annually.

#### **Long-Lived Assets**

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

### **Deferred Financing Costs**

Financing costs incurred in obtaining financing are being amortized by the straight-line method over the applicable terms of the bonds. Amortization expense was \$17,878 and \$27,253 for the years ended September 30, 2010 and 2009, respectively.

#### **Intangible Assets**

The Organization acquired controlling interest in Partners in Community Supports, Inc. (PICS) effective April 1, 2008 through payments of approximately \$219,000 to the four former partners as well as assuming existing liabilities of PICS in excess of assets of approximately \$510,000. Controlling interest includes one of the seventeen state issued licenses for a Fiscal Support Entity to provide consumer directed community supports.

During fiscal year 2010, the Organization purchased substantially all the assets, excluding real estate, of Empowerment Services Inc. (ESI), a Minnesota corporation. With the purchase, the Organization assumed the ongoing operation of ten facilities for people with disabilities and other community services located in Rice County, Minnesota. The purchase price totaled \$450,000, with \$225,000 due at closing and the remainder payable during the subsequent year. The purchase included fixed assets, equipment including eleven motor vehicles and goodwill of \$350,000. All licenses and leases on rental properties were assumed. The Organization hired substantially all ESI employees with this purchase.

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Split Interest Agreements**

The Organization is named as a beneficiary in various gift annuities, charitable remainder trusts, and unitrusts. Upon notification of the gift an asset is recorded for the difference between the fair value of those assets and the liability under the gift contracts with donors. The amount expected to be received is established at the time of the contribution using life expectancy actuarial tables, expected investment returns and annuity payments, and is revalued at the end of each fiscal year. Actual gains and losses resulting from the annual revaluation of these obligations are reflected as temporarily or permanently restricted, consistent with the method used to initially record the contributions. The value of these gifts was \$948,877 and \$848,023 at September 30, 2010 and 2009, respectively.

The Organization became the trustee for the Pittman Trust in 2007. The trust is held for 20 years. The trust provides that the lower of 8% of trust assets or the total interest and dividends earned by the trust will be distributed to the remainders. At the end of 20 years, the trust will pay out to the Organization. The value of the trust, as of 2010, is booked at present value of \$377,065 as an asset of \$1,276,024 and an offsetting liability of \$898,959 for the value of the future obligations under the trust as of 2010. As of 2009, the value of the trust was booked at present value of \$334,220 as an asset of \$1,201,151 and an offsetting liability of \$866,931 for the values of the future obligations under the trust.

#### **Government Contracts**

Government contracts are recorded as revenue when earned. The rates for the waivered service programs are determined each year through negotiations with various counties in the State of Minnesota. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue.

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

The Organization receives a significant portion of its governmental service fees from Medicaid, Medical Assistance, Minnesota Supplemental Assistance, Social Security and Supplemental Security income which are subject to regulated rate increases.

#### Contributions

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

The Organization reports gifts as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Conditional Grants**

Forgivable loans have been recorded as conditional contributions. Revenue from these loans is being recognized evenly over the conditional use period. As such they are recorded as a long-term liability and included in Note 8, Long-Term Debt and Line of Credit.

#### **Advertising Expenses**

Advertising expenditures are expensed as incurred. Advertising expense for the years ended September 30, 2010 and 2009 totaled \$194,944 and \$147,873, respectively.

### **Functional Expense Allocation**

Expenses are allocated based on direct expenses whenever possible. Indirect expenses are allocated based on the best estimates of management.

#### **Tax Exempt Status**

Lutheran Social Service of Minnesota, Lutheran Social Service of Minnesota Foundation, and Partners In Community Supports (PICS) have tax exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute. Rezek House LLC, LSS Townhomes LLC, LSS Supportive Housing LLC. CFCL Lending LLC, CFCL LLC and LSS Development LLC are single member limited liability companies, the activities of which are reported within the activities of the Organization as exempt activities. Park Avenue Apartments LP is a limited partnership for which the activities are reported in the Organization as exempt activities. The Organization has been classified as an organization that is a public charity under the Internal Revenue Code and charitable contributions by the donors are tax deductible.

The Organization has adopted the income tax standard regarding the recognition and measurement of uncertain tax positions. The Organization has no current obligation for unrelated business income tax. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2007 to 2009 are open to examination by federal and state authorities.

#### **Asset Retirement Obligation**

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or settlement are conditional on a future event that may or may not be within the control of the entity. The Organization estimated the cost of any potential obligation to remove asbestos. The Organization used a future value rate assumption of 3% and a present value risk-free rate of 7% to determine the potential liability. The Organization has recorded a liability of \$3,753 and \$3,508 at September 30, 2010 and 2009, respectively.

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 26, 2011, the date the consolidated financial statements were available to be issued.

#### NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2010 and 2009 consist of commitments from various donors. The discount rate has been imputed at 3.5%, which approximates the Organization's risk free borrowing rate at September 30, 2010 and 2009. The allowance for uncollectible accounts was \$77,735 and \$0 for 2010 and 2009, respectively.

		2009		
Unconditional Pledges Receivable	\$	737,846	\$	940,599
Unamortized Discount		(7,044)		(13,569)
Allowance for Uncollectible Accounts		(77,735)		
Total	\$	653,067	\$	927,030
Amounts Due in:				
Less Then One Year	\$	606,356	\$	675,493
One to Five Years		131,490		265,106
Total	\$	737,846	\$	940,599

Pledges receivable from board members and employees totaled \$161,807 and \$150,498 at September 30, 2010 and 2009, respectively.

#### NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these financial instruments. The fair value of pledges receivable, which is based on discounted cash flows using current interest rates, approximates the carrying value. The carrying values of investments and the beneficial interest in perpetual trust, which are the fair value, are based upon fair value measurements.

#### Fair Value Hierarchy

The Organization has categorized its financial instruments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2 - Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

### NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair Value Hierarchy (Continued)

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, long-term promises to give, split-interest agreements, and long-term grants payable).

The following table presents the Organization's value for those investments, excluding money market funds, measured at fair value on a recurring basis as of September 30:

2010				
Level 1	Level 2	Level 3	Total	
\$ 1,336,500	\$ -	\$ -	\$ 1,336,500	
755,159	-	-	755,159	
	387,354		387,354	
\$ 2,091,659	\$ 387,354	\$ -	\$ 2,479,013	
\$ -	\$ -	\$ 2,435,456	\$ 2,435,456	
Level 1	Level 2	Level 3	Total	
· /	\$ -	\$ -	\$ 934,999	
648,201	-	-	648,201	
_	200,018		200,018	
\$ 1,583,200	\$ 200,018	\$ -	\$ 1,783,218	
\$ -	\$ -	\$ 2,420,016	\$ 2,420,016	
	\$ 1,336,500 755,159 - \$ 2,091,659 \$ - Level 1 \$ 934,999 648,201	Level 1     Level 2       \$ 1,336,500     \$ -       755,159     -       387,354       \$ 2,091,659     \$ 387,354       \$ -     \$ -       Level 1     Level 2       \$ 934,999     \$ -       648,201     -       200,018	Level 1       Level 2       Level 3         \$ 1,336,500       \$ -       \$ -         755,159       -       -         -       387,354       -         \$ 2,091,659       \$ 387,354       \$ -         \$ -       \$ 2,435,456         2009         Level 1       Level 2       Level 3         \$ 934,999       \$ -       \$ -         648,201       -       -         -       200,018       -         \$ 1,583,200       \$ 200,018       \$ -	

#### NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair Value Hierarchy (Continued)

The totals above do not include certain amounts as they are not measured on a recurring basis at fair value. The table below reconciles total investments:

	2010	2009
Total Investments	2,672,493	2,468,900
Investments Not Measured at Fair		
Value on a Recurring Basis:		
Cash and Cash Equivalents	(193,480)	(685,682)
Total Investments Measured at Fair Value		
on a Recurring Basis	\$ 2,479,013	\$ 1,783,218

#### Fair Value Measurements

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Additional information on how the Organization measures fair value is as follows:

<u>Investments</u> – Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

<u>Beneficial interest in Perpetual Trusts</u> – Perpetual Trusts are recorded at fair value on a recurring basis. Fair value measurement is estimated based upon the Organization's percentage interest in the fair value of the trust's assets, and, accordingly, are classified using Level 3 inputs. The underlying assets in the trusts are valued based upon quoted prices.

#### **Level 3 Assets**

The following table provides a summary of changes in fair value of the Organization's Level 3 financial assets for the years ended September 30, 2010 and 2009:

		Beneficial		
		Interest in		
	Pe	rpetual Trust		
Balance as of October 1, 2009	\$	2,420,016		
Distribution		(164,208)		
Change in Value of Undistributed Trust Assets		179,648		
Balance as of September 30, 2010	\$	2,435,456		
Balance as of October 1, 2008	\$	3,070,908		
Distribution		(566,119)		
Change in Value of Undistributed Trust Assets		(84,773)		
Balance as of September 30, 2009	\$	2,420,016		

### NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of long-term debt is estimated based on current rates offered to the Organization for debt of similar terms and maturities. Under this method, the Organization's fair value of long-term debt was approximately \$5.5 million more than the carrying value at September 30, 2010 and September 30, 2009.

#### NOTE 4 LAND, BUILDINGS, AND EQUIPMENT

Cost and related accumulated depreciation at September 30, 2010 and 2009 were:

	20	10	2009			
		Accumulated		Accumulated		
	Cost	Depreciation	Cost	Depreciation		
Land	\$ 3,561,707	\$ -	\$ 3,666,929	\$ -		
Land Improvements	903,986	472,270	894,237	427,968		
Construction in Process	24,004	-	23,695	-		
Buildings and Building						
Improvements	44,264,099	10,162,407	44,564,467	9,071,664		
Equipment	6,403,767	5,178,142	6,220,574	4,544,468		
Vehicles	159,538	98,008	116,398	79,880		
Capital Leases - Vehicles	1,002,025	228,101				
	\$ 56,319,126	\$ 16,138,928	\$ 55,486,300	\$ 14,123,980		
Net Land, Buildings and						
Equipment	\$ 40,180,198		\$ 41,362,320			

#### NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

#### **Defined Benefit Pension Plan**

The Organization has a noncontributory defined benefit pension plan. The plan provides for 100% vesting after five years of service or attainment of the normal retirement age of 65, with reduced compensation in cases of early retirement. Benefits are based on credited years of service and the average of the employee's highest compensation over a consecutive 36-month period during the 10 years prior to retirement.

Effective January 1, 2005, the Organization froze its defined benefit pension plan for most participants and converted to a discretionary contribution plan. Participation and vesting guidelines are substantially the same. Participants with at least 10 years of service and attainment of age 45 as of January 1, 2005 were grandfathered into the defined benefit pension plan. Effective May 31, 2009, the Organization froze its defined benefit pension plan for all participants.

## NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

The measurement dates used for the Plan disclosures are as of September 30, 2010 and 2009, and for the years then ended.

The changes in the projected benefit obligation are as follows:

Change in Plan Assets			
Fair Value of Plan Assets at Beginning of Year	\$	14,767,926	\$ 15,522,259
Actual Return on Plan Assets		1,467,126	311,181
Employer Contribution		1,000,000	-
Expenses		(112,723)	(113,792)
Benefits Paid		(1,333,905)	(951,722)
Fair Value of Plan Assets at End of Year	\$	15,788,424	\$ 14,767,926
Funded Status of the Plan			
Benefit Obligation	\$	31,756,002	\$ 29,255,860
Fair Value of Plan Assets		15,788,424	 14,767,926
Excess of Benefit Obligation over			
Fair Value of Plan Assets	\$	(15,967,578)	\$ (14,487,934)
Components of Net Periodic Benefit Costs			
Service Cost	\$	-	\$ 300,118
Interest Cost		1,800,835	1,801,815
Expected Return on Plan Assets		(1,168,078)	(1,200,101)
Amortization of Net Loss		376,141	216,960
Net Periodic Pension Cost	\$	1,008,898	\$ 1,118,792
Underfunded Plan Information	_		
Projected Benefit Obligation at End of Year	\$	31,756,002	\$ 29,255,860
Accumulated Benefit Obligation at End of Year	·	31,756,002	29,255,860
Fair Value of Assets at End of Year		15,788,424	14,767,926

Weighted average assumptions used to determine net periodic benefit cost are as follows:

	2010	2009
Actuarial Assumptions		
Assumptions Used to Determine Benefit Obligations		
at September 30:		
Assumed Discount Rate	5.75 %	6.25 %
Assumed Annual Increase in Salaries	- %	- %
Assumptions Used to Determine Net Periodic Benefit		
Cost for Years Ended September 30:		
Assumed Discount Rate	6.25 %	7.00 %
Expected Long-Term Return on Plan Assets	8.00 %	8.00 %
Assumed Annual Increase in Salaries	- %	4.00 %

### NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

### Investment Allocation/Basis Used to Determine Expected Long-Term Rate of Return

This investment policy is to enhance the value of Defined Benefit Plan funds held in the portfolio(s) and at the same time provide a dependable, increasing source of income, which will be used to support benefit distributions of the Plan. The portfolio shall be composed of diversified assets, including both equities and fixed-income investments. The equities are designed to provide current income, growth of income and appreciation of principal. The fixed-income investments are intended to provide a predictable and reliable source of interest income while reducing the volatility of the portfolio. As a long-term policy guideline, equity investments will constitute 65% of Plan assets and fixed income (bonds and cash) 35% of the portfolio.

The percentage of the fair value of total plan assets held as of September 30, 2010 (the measurement date) by asset category is as follows:

	2010	2009
The Plan Assets are invested as follows:		
Equity Securities	73%	69%
Debt Securities	27%	31%

The Plan uses fair value measurement to record fair value adjustments to certain assets and to determine fair value disclosures. The following table presents the fair value hierarchy for the balances of the assets of the Plan measured at fair value on a recurring basis as of September 30:

2010							
Level 1	Level 2	Level 3	Total				
\$ 4,185,29	92 \$ -	\$ -	\$ 4,185,292				
	- 7,227,477	-	7,227,477				
	- 4,319,568	<u>-</u>	4,319,568				
\$ 4,185,29	92 \$ 11,547,045	\$ -	\$15,732,337				
	2009						
Level 1	Level 1 Level 2 Level 3 Total						
\$ 2,833,49	97 \$ -	\$ -	\$ 2,833,497				
	- 8,574,648	-	8,574,648				
	- 3,250,075		3,250,075				
\$ 2,833,49	97 \$ 11,824,723	\$ -	\$14,658,220				
	\$ 4,185,29 \$ 4,185,29 Level 1 \$ 2,833,49	Level 1 Level 2  \$ 4,185,292 \$ -     7,227,477     4,319,568 \$ 4,185,292 \$ 11,547,045  Level 1 Level 2  \$ 2,833,497 \$ -     8,574,648     3,250,075	Level 1       Level 2       Level 3         \$ 4,185,292       \$ -       \$ -         -       7,227,477       -         -       4,319,568       -         \$ 4,185,292       \$ 11,547,045       \$ -         2009         Level 1       Level 2       Level 3         \$ 2,833,497       \$ -       \$ -         -       8,574,648       -         -       3,250,075       -				

### NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

# <u>Investment Allocation/Basis Used to Determine Expected Long-Term Rate of Return</u> (Continued)

The totals above do not include certain amounts as they are not measured on a recurring basis at fair value. The table below reconciles total investments:

	2010	2009
Total Investments	15,788,424	14,767,926
Investments Not Measured at Fair		
Value on a Recurring Basis:		
Cash and Cash Equivalents	 (56,087)	 (109,706)
Total Investments Measured at Fair Value		 
on a Recurring Basis	\$ 15,732,337	\$ 14,658,220

The Organization provided funding to the plan of \$1,000,000 during fiscal year 2010. Additional funding of \$1,200,000 annually is expected with contributions of \$1,000,000 directly to the plan and \$200,000 to a Pension Plan Reserve.

Estimated future benefit payments, which reflect expected future services, are as follows:

Year Ending September 30,	_	Amount	
2011	_	\$	1,381,608
2012			1,459,008
2013			1,667,006
2014			1,741,609
2015			1,837,590
2016-2020			10,718,055

### **Other Post Retirement Benefits**

The Organization also has a defined contribution 403(b) retirement savings plan that covers substantially all employees. Employees can elect to contribute a portion of their pretax earnings to the plan. Employees are eligible for participation in the plan upon employment. In 2010 and 2009, the Organization matched participant contributions by 50% up to the first 4% of eligible compensation. The plan was amended in fiscal 2005 to allow for Employer discretionary contributions to be determined annually by the Organization's management. The discretionary contribution in 2010 and 2009 was 2% and 0% respectively of eligible compensation. Employees become fully vested in the Employer match and discretionary contribution after five years of service. Expenses charged to the Organization's financial statements for this plan was \$848,573 and \$405,979 for the years ended September 30, 2010 and 2009, respectively.

#### NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Anderson Trust, a perpetual trust in the amount of \$2,435,456 and \$2,420,016 at September 30, 2010 and 2009, respectively, is included in permanently restricted net assets. The Organization has the irrevocable right to receive the income on these trust assets, subject to certain limitations, but will never receive the assets held in trust. The unrealized gains and the undistributed earnings on the trusts are reported as additions to the permanently restricted net asset balance. The distributed income from these trusts is to be used for the maintenance and operation of a facility for needy children. This restriction was expanded by the court in 2009 to include adults with disabilities and enlarged the area to within a 50-mile radius from the present location. A one-time distribution in 2009 was made in the amount of \$478,612 to reflect a higher rate of distribution that was mandated by the court for the time period 2003 to 2009. Income distributions from the trust were \$164,208 and \$566,119 for the years ended September 30, 2010 and 2009, respectively.

#### NOTE 7 SELF-INSURED BENEFIT LIABILITIES

In 1992, a benefit fund was established for the Organization's self-funded employee medical, dental, and short-term disability plans. Under the plans, which are administered by the trust, contributions are made by the Organization and employees to pay claims, administrative costs, and commercial insurance premiums. The commercial insurance premiums (stop-loss insurance) cover individual medical claims in excess of \$200,000 and aggregate claims over 120% of annual expected claims or \$6,344,400. The self-insured medical, dental, and short-term disability expense recorded in the Organization's financial statements was \$5,808,704 and \$6,478,674 in 2010 and 2009, respectively. The Organization has recorded liabilities of \$1,318,427 and \$631,016 for claims incurred but not yet paid as of September 30, 2010 and 2009, respectively. The trust is a separate legal entity which is excluded from the Organization's consolidated financial statements

The Organization became self-insured for workers' compensation on April 1, 1994. As of September 30, 2010 and 2009, the Organization has recorded liabilities of \$412,540 and \$530,802, respectively, for claims incurred but not yet reported. In addition, the Organization has a \$1,291,953 surety bond to secure amounts potentially required to be paid for workers' compensation. Consulting actuaries assist the Organization in determining its liability for self-insured claims.

### NOTE 8 LONG-TERM DEBT AND LINE OF CREDIT

		2010			2009				
<u>Description</u>	<u>Security</u>	Fa	ce Value	Current Value		Fa	ace Value	Cu	rrent Value
4.31% to 4.50% City of Grand Rapids, Minnesota, Tax-Exempt Series 2003A and B Bonds, Due through 2015	Houses, Computers and Motor Vehicles	\$	686,145	\$	686,145	\$	860,925	\$	860,925
4.92% to 5.70% City of Brainerd, Minnesota, Tax-Exempt Series 2001A, B and C Bonds, Due through 2016	Houses, Computers and Motor Vehicles		417,292		417,292		543,315		543,315
4.91% to 6.41% Minnesota Agricultural and Economic Development Board, Tax-Exempt Series 1999A Bonds, Due through 2014	Houses, Computers and Motor Vehicles		141,922		141,922		177,802		177,802
Note Payable to American National Bank of Minnesota, Interest at 6.75%, Due March 1, 2014	Land and Buildings		249,601		249,601		276,055		276,055
Note Payable to Minnesota Housing Finance Agency, Non- Interest Bearing, Forgivable in 2020 *	Safe House Land and Building		40,439		18,702		40,439		20,725
Thrivent PRI Loan, 2% Interest; \$2 Million in 3 Installments of \$666,667. Due July 31, 2014			666,667		666,667		666,667		666,667
Lutheran Community Foundation PRI Loan, 2% Interest; \$250,000 in 3 Installments of \$83,333. Due July 31, 2014			83,333		83,333		83,333		83,333
US Bank Short Term Bank Note, Interest at 3.15%, Due February 28, 2011	Accounts Receivable and Inventory		177,713		177,713		196,963		196,963
Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Non-Interest Bearing, Forgivable in 2037 *	Land and Buildings		600,000		541,668		600,000		561,668
Capital Leases	Vehicles		783,159		783,159		-		<u>-</u>
Subtotal for Lutheran Social Service of Minnesota			3,846,271		3,766,202		3,445,499		3,387,453

## NOTE 8 LONG-TERM DEBT AND LINE OF CREDIT (CONTINUED)

		2010		2009		
Description	<u>Security</u>	Face Value	Current Value	Face Value	Current Value	
Note Payable to Minnesota Housing Finance Agency, Non- Interest Bearing, Forgivable in 2020 *	Land and Buildings	521,674	243,448	521,674	269,531	
Note Payable to City of St. Paul Housing and Redevelopment Authority, Interest at 2.00%, Principal and Interest Due December 31, 2026	Land and Buildings	360,500	207,406	354,500	197,529	
Subtotal for Rezek House LLC		882,174	450,854	876,174	467,060	
Note Payable to Minnesota Housing Finance Agency, Non- Interest Bearing, Forgivable May 16, 2033 *	Land and Buildings	1,720,580	1,315,170	1,720,580	1,373,085	
Note Payable to Minnesota Housing Finance Agency, Non- Interest Bearing, Due May 16, 2033	Land and Buildings	119,420	60,509	119,420	58,746	
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 16, 2033.	Land and Buildings	130,000	66,598	130,000	64,658	
Note Payable to Minnesota Community Development Authority, Interest at 1.00%, Principal and Interest Due May 16, 2033	Land and Buildings	322,000	199,372	319,000	193,566	
Subtotal for LSS Townhomes LLC		2,292,000	1,641,649	2,289,000	1,690,055	
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 19, 2034	Land and Buildings	126,000	59,193	126,000	57,330	
Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1.00%, Principal and Interest Due May 19, 2034	Land and Buildings	276,575	158,739	273,975	153,742	
Note Payable to City of Minneapolis, Interest at 1.00%, Principal and Interest Due May 19, 2034	Land and Buildings	270,724	155,429	268,179	150,536	

## NOTE 8 LONG-TERM DEBT AND LINE OF CREDIT (CONTINUED)

		2010		2010			2009		
<u>Description</u>	<u>Security</u>	Face Value	Current Value	Face Value	Current Value				
Note Payable to Minnesota Housing Finance Agency, Non- Interest Bearing, Due May 19, 2034	Land and Buildings	600,000	281,871	600,000	272,999				
Note Payable to City of Minneapolis, Non-Interest Bearing, Forgivable May 19, 2034 *	Land and Buildings	100,000	78,463	100,000	81,796				
Note Payable to City of Minneapolis, Non-Interest Bearing, Forgivable May 19, 2034 *	Land and Buildings	<u>-</u> _	<u>-</u>	107,150	87,952				
Total for LSS Supportive Housing LLC		1,373,299	733,695	1,475,304	804,355				
Note Payable to Wells Fargo, N.A., fee of \$60,000 is Due at Closing and Additional 1% of Outstanding Valance on First Day of Permanent Period (Conversion Fee)	Center For Changing Lives Building and improvements	3,154,551	3,154,551	3,622,300	3,622,300				
Note Payable to New Markets Investment XXVIII, LLC, Interest of 5.81% it to be Paid Beginning of Each Calendar Quarter Starting March 20, 2008 Until January 20, 2012 **	Center For Changing Lives Building and improvements	13,717,365	12,442,215	13,717,365	12,905,906				
Total for LSS Center for Changing Lives for Changing Lives		16,871,916	15,596,766	17,339,665	16,528,206				
Note Payable to Hennepin County AHTF, Interest at 5.50%, Principal and Interest Due January 24, 2038	Park Avenue Apartments	583,452	583,452	553,036	553,036				
Note Payable to City of Minneapolis AHIF, Interest at 1%, Principal and Interest Due December 31, 2037	Park Avenue Apartments	411,504	411,504	407,504	407,504				
Total for Park Avenue Apartments		994,956	994,956	960,540	960,540				
Total Long-Term Debt and Conditional Grants		26,260,616	23,184,122	26,386,182	23,837,669				

### NOTE 8 LONG-TERM DEBT AND LINE OF CREDIT (CONTINUED)

		2010		2009		
<u>Description</u>	<u>Security</u>	Face Value	Current Value	Face Value	Current Value	
Less: Conditional Grants		2,982,693	2,197,451	3,089,843	2,394,757	
Total Debt		23,277,923	20,986,671	23,296,339	21,442,912	
Less: Current Maturities of Lor	ng-Term Debt	1,115,663	1,115,663	1,023,400	1,023,400	
Long-Term Debt, Excluding Current Maturities and Conditional Grants		\$ 22,162,260	\$ 19,871,008	\$ 22,272,939	\$ 20,419,512	

<sup>\*</sup> Conditional Grants

For below market loans the present value discount is imputed using rates between 3% and 5% depending on the year the loan was initiated.

Principal maturities for long-term debt are as follows:

Year Ending September 30,	Amount			
2011	\$ 1,115,663			
2012		574,895		
2013		647,436		
2014		670,891		
2015		616,662		
Thereafter		17,361,124		
Total	\$	20,986,671		

Land and buildings with a net book value of \$11,946,151 and \$12,252,094 are pledged as collateral at September 30, 2010 and 2009, respectively, primarily on MHFA mortgage notes.

At September 30, 2010, the Organization was not in compliance with the liabilities to net assets ratio for its Brainerd Series 2001 bonds and received a waiver subsequent to year-end.

<sup>\*\*</sup> There is a loan receivable in the amount of \$10,471,529 associated with the Center for Changing Lives project.

### NOTE 8 LONG-TERM DEBT AND LINE OF CREDIT (CONTINUED)

### **Line of Credit**

The Organization has a total of \$3,290,000 of working capital lines of credit with U.S. Bank. The lines bear interest on outstanding borrowings at the bank's reference rate (4% at September 30, 2010) and mature on February 28, 2011. At September 30, 2010 and 2009, the amount outstanding was \$-0-. In addition, there is a short-term loan of \$210,000 that will be renewed on February 28, 2011. The interest rate is 30 day LIBOR + 250 basis points, and \$1,750 in principal is paid each month. The balance outstanding at end of 2010 and 2009 is \$177,713 and \$196,963, respectively.

### **Center for Changing Lives**

There is a loan receivable from CFCL Investment Fund, LLC in the amount of \$10,471,529 and a loan payable to the New Market Investment XXVIII, LLC in the amount of \$13,717,365 from the Center for Changing Lives Project. There will be quarterly interest payments due on these amounts until 2014.

The Organization established a construction loan of up to \$6.4 million for the Center for Changing Lives Project. As of September 30, 2010, the Organization has drawn down \$3.2 million compared to \$3.6 million in 2009. For the first four years, quarterly payments of interest are required at a rate equal to LIBOR plus 1.9%. All funds received for the Capital Campaign must be used to pay down the loan; there are outstanding pledges receivable in the amount of \$423,744 as of September 30, 2010.

The schedule of principal amortization during this four year period provides that the outstanding principal at the end of each year may not exceed a specified maximum amount:

12/31/2008	\$6,800,000
12/31/2009	\$5,600,000
12/31/2010	\$4,400,000
12/31/2011	\$3,200,000
2012 to 2017	15 Year Amortization of 2011 Balance
12/31/2017	Balance Due in Full

At the end of the four year initial period (January 24, 2012), the loan (a maximum of \$3,200,000) will convert to a fixed rate based on the five-year treasury rate plus 1.05%. The loan matures December 31, 2017.

#### NOTE 9 LEASES

The Organization has operating lease agreements for office space and vehicles. The majority of these leases expire throughout the next five years. In most instances, office space lease terms are renewable.

As of September 30, 2010, future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year were:

Year Ending September 30,	Amount			
2011	\$ 2,389,207			
2012		2,052,334		
2013		1,549,194		
2014		635,328		
2015		329,176		
Thereafter		113,733		
Total	\$	7,068,972		

Rental expense for all operating leases was \$2,275,292 and \$2,152,923 for the years ended September 30, 2010 and 2009, respectively.

The Organization leases certain vehicles under long-term lease agreements. The leases, which are accounted for as capital leases, expire at various dates. The cost of vehicles recorded under capital leases was \$1,002,025 at September 30, 2010. Accumulated depreciation was \$228,100 and \$-0- at September 30, 2010 and 2009, respectively. Future minimum lease payments are as follows:

Year Ending September 30,	Amount		
2011	\$	189,599	
2012		181,882	
2013		174,163	
2014		166,445	
2015		121,841	
Thereafter		103,138	
Total Lease Payments		937,068	
Less Interest Expense		(153,909)	
Total Minimum Lease Payments	\$	783,159	

#### NOTE 10 NET ASSETS

### **Temporarily Restricted**

Temporarily restricted net assets are available for the following purposes at September 30, 2010 and 2009:

	2010	2009
Split Interest Deferred Gifts / Trusts	\$ 1,325,942	\$ 1,182,244
Donations and Forgivable Loan Interest for Property	13,452,398	12,254,351
Cash Restricted by Donors for Specific Program Use	2,667,787	4,176,415
Total	\$ 17,446,127	\$ 17,613,010

#### Permanently Restricted

Permanently restricted net assets with investment return restricted for the following purposes at September 30, 2010 and 2009 are as follows:

	 2010	_	2009
Perpetual Trust for VASA Lutheran Home	\$ 2,435,456		\$ 2,420,016
Endowment investments	1,083,924		1,083,761
Camp Knutson	54,584		54,584
Other	191,288		190,787
Total	\$ 3,765,252		\$ 3,749,148

### **Net Assets Released from Restrictions**

The net assets released from restrictions as of September 30, 2010 and 2009 consist of the following:

	 2010		2009
Time and Purpose Releases	\$ 3,029,198	\$	3,694,047
Building Releases	 956,075		1,019,356
Total	\$ 3,985,273	\$	4,713,403

#### NOTE 11 COMMITMENTS AND CONTINGENCIES

A land lease between Luther Seminary and the organization commenced in 1992 at the site of the new administrative office facility. The lease term is 50 years, with the option to extend the lease for an additional 25 years. Annual rent is \$13,911 adjusted every five years for the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers.

#### NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization provides Guardianship and Conservatorship services for vulnerable adults throughout the state of Minnesota. For these services, the court orders the appointment of a person or agency to act as a substitute decision maker for a person. The Organization follows the National Guardianship Association and the Minnesota Association for Guardianship Conservatorship standards. As of September 30, 2010 and 2009, the Organization was the guardianship or conservator of estates totaling \$27,644,278 and \$26,025,497, respectively.

The Organization is involved in legal action in regards to normal business activities. Management does not feel that these actions are material and pose a financial threat to the organization and, accordingly, no liability is accrued at September 30, 2010 and 2009.

#### **NOTE 12 ENDOWMENTS**

The Organization has donor restricted endowment funds established for the purpose of securing the Organization's long-term financial viability and continuing to meet the needs of the Organization. As required by GAAP, net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Organization has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$155,888 and \$245,743 as of September 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations in the endowment fund's investments.

### NOTE 12 ENDOWMENTS (CONTINUED)

# Return Objectives and Risk Parameters, Investment and Spending Policies for the Organization's Foundation

The Organization's Foundation Board of Directors has adopted an Investment and Distribution Policy for its endowments assets. The policy seeks to maintain the purchasing power of the endowment assets while providing a predictable funding stream to its programs. In addition, the organization has hired an outside investment manager to oversee the investment of the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s).

The investment policy provides a targeted mix of equity and income investments. Investment performance is benchmarked quarterly against the performance of the S&P 500 and the applicable bond fund indexes.

Annual distributions from the Endowment funds are targeted at 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end based upon the preceding the fiscal year in which the distribution is planned. In addition, actual investment performance is considered in the distribution decision.

Endowment net asset composition by type and changes in endowment net assets for the years ended September 30 is as follows:

	2010			
		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Endowment Fund Balance, September 30, 2009	\$ (245,743)	\$ -	\$ 1,329,131	\$ 1,083,388
Contributions	-	-	164	164
Investment Return:				
Investment Income	17,000	-	-	17,000
Investment Expenses	(41,203)	-	-	(41,203)
Realized Losses	(9,206)	-	-	(9,206)
Unrealized Gains	123,263			123,263
Total Investment Return	89,855		-	89,855
Endowment Fund Balance, September 30, 2010	\$ (155,888)	\$ -	\$ 1,329,295	\$ 1,173,407
		2	2009	
		Temporarily	Permanently	
	Unrestricted	Restricted	Restricted	Total
Endowment Fund Balance, September 30, 2008	\$ (183,247)	\$ -	\$ 1,328,531	\$ 1,145,284
Endowment Fund Balance, September 30, 2008 Contributions	\$ (183,247) -	\$ -	\$ 1,328,531 600	
• •	\$ (183,247) -	\$ -	* 1,0=0,001	\$ 1,145,284
Contributions	\$ (183,247) - 24,588	\$ -	* 1,0=0,001	\$ 1,145,284
Contributions Investment Return:	-	\$ - - -	* 1,0=0,001	\$ 1,145,284 600
Contributions Investment Return: Investment Income	24,588	\$ - - - -	* 1,0=0,001	\$ 1,145,284 600 24,588
Contributions Investment Return: Investment Income Investment Expenses	24,588 (10,993) (44,810) (31,281)	\$ - - - - -	* 1,0=0,001	\$ 1,145,284 600 24,588 (10,993)
Contributions Investment Return: Investment Income Investment Expenses Realized Losses	24,588 (10,993) (44,810)	\$ - - - - - -	* 1,0=0,001	\$ 1,145,284 600 24,588 (10,993) (44,810)

### NOTE 13 EMPOWERMENT SERVICES OF RICE COUNTY INC. ACQUISITION

Empowerment Service of Rice County Inc. (ESI) was acquired effective August 1, 2010 which added services for people with disabilities in Rice County, Minnesota for \$450,000. The acquisition was accounted for using the purchase method of accounting. The fair value of the balance sheet acquired was as follows:

Fixed Assets	\$ 75,000
Goodwill	350,000
Prepaid Services	25,000
Accounts Payable	 (450,000)
Total Net Assets from Acquisition	\$ 