LUTHERAN SOCIAL SERVICE OF MINNESOTA
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Lutheran Social Service of Minnesota and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Social Service of Minnesota and Affiliates as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 31, 2017

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	2016				
	Lutheran Social Service	Children's Home Society of Minnesota	LSS PAA LP and Rolling Hills	Elimination	Lutheran Social Service Consolidated
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	$ 10,778,258	$ 164,493	$ 405,196	$ -	$ 11,347,947
Pledges Receivable, Net	1,133,961	-	-	-	1,133,961
Accounts Receivable, Net	13,483,797	427,857	18,308	(1,525,303)	12,404,659
Other Current Assets	748,972	411,161	13,012	-	1,173,145
Total Current Assets	26,144,988	1,003,511	436,516	(1,525,303)	26,059,712
Net Land, Building, and Equipment	32,604,840	6,289,188	18,809,037	(152,000)	57,551,065
Investments	4,386,119	6,758,823	-	-	11,144,942
Goodwill	1,454,207	-	-	-	1,454,207
Long-Term Pledges Receivable	794,352	-	-	-	794,352
Other Assets Limited to Use	3,662,883	-	343,065	-	4,005,948
Other Assets	1,711,910	180,544	1,065,799	(86,000)	2,872,253
Loan Receivable	679,000	-	-	(629,000)	50,000
Beneficial Interest in Perpetual Trust	2,723,029	1,558,292	-	-	4,281,321
Total Assets	$ 74,161,328	$ 15,790,358	$ 20,654,417	$ (2,392,303)	$ 108,213,800
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable, Accrued Liabilities, and Deferred Income	$ 3,690,767	$ 924,394	$ 1,395,106	$ (1,010,459)	$ 4,999,808
Conditional Grants, Current	329,354	-	-	-	329,354
Borrowing Under Line of Credit	1,730,169	-	-	-	1,730,169
Accrued Payroll, Benefits, Taxes, and Withholding	8,839,554	357,578	-	-	9,197,132
Current Portion of Long-Term Debt	298,683	-	52,051	-	350,734
Total Current Liabilities	14,888,527	1,281,972	1,447,157	(1,010,459)	16,607,197
Accounts Payable to LSS under Management Agreement	-	1,515,802	-	(1,515,802)	-
Accrued Pension Liabilities	19,475,802	-	-	-	19,475,802
Obligation Under Trust Agreement	1,006,257	47,110	-	-	1,053,367
Conditional Grants, Long-Term	5,575,450	-	-	-	5,575,450
Asset Retirement Obligation	-	166,915	-	-	166,915
Long-Term Debt, Less Current Portion	4,399,309	-	5,601,402	(629,000)	9,371,711
Total Liabilities	45,345,345	3,011,799	7,048,559	(3,155,261)	52,250,442
NET ASSETS					
Unrestricted (Deficit)	(1,209,782)	(1,265,143)	13,605,858	762,958	11,893,891
Temporarily Restricted	24,904,992	5,966,812	-	-	30,871,804
Permanently Restricted	5,120,773	8,076,890	-	-	13,197,663
Total Net Assets	28,815,983	12,778,559	13,605,858	762,958	55,963,358
Total Liabilities and Net Assets	$ 74,161,328	$ 15,790,358	$ 20,654,417	$ (2,392,303)	$ 108,213,800

See accompanying Notes to Consolidated Financial Statements.

2015				
Lutheran Social Service	Children's Home Society of Minnesota	LSS PAA LP and Rolling Hills	Elimination	Lutheran Social Service Consolidated
$ 10,595,015	$ 198,198	$ 375,208	$ -	$ 11,168,421
1,677,812	-	-	-	1,677,812
12,519,450	485,329	10,794	(1,841,120)	11,174,453
797,523	396,193	11,949	-	1,205,665
25,589,800	1,079,720	397,951	(1,841,120)	25,226,351
33,042,066	6,483,926	19,686,037	(152,000)	59,060,029
3,981,813	7,184,500	-	-	11,166,313
1,379,207	-	-	-	1,379,207
191,228	-	-	-	191,228
44,064	-	377,398	-	421,462
1,487,659	319,727	1,002,877	(86,000)	2,724,263
679,000	-	-	(629,000)	50,000
2,570,241	1,641,780	-	-	4,212,021
$ 68,965,078	$ 16,709,653	$ 21,464,263	$ (2,708,120)	$ 104,430,874
$ 3,806,222	$ 862,863	$ 1,522,862	$ (1,028,645)	$ 5,163,302
109,354	-	-	-	109,354
2,275,167	-	-	-	2,275,167
8,293,233	412,802	-	-	8,706,035
448,973	-	49,371	-	498,344
14,932,949	1,275,665	1,572,233	(1,028,645)	16,752,202
-	1,831,896	-	(1,831,896)	-
20,292,676	-	-	-	20,292,676
1,006,607	130,352	-	-	1,136,959
1,541,471	-	-	-	1,541,471
3,642	180,198	-	-	183,840
4,042,477	-	5,564,909	(629,000)	8,978,386
41,819,822	3,418,111	7,137,142	(3,489,541)	48,885,534
(2,583,341)	(1,587,028)	14,327,121	781,421	10,938,173
24,966,105	6,828,877	-	-	31,794,982
4,762,492	8,049,693	-	-	12,812,185
27,145,256	13,291,542	14,327,121	781,421	55,545,340
$ 68,965,078	$ 16,709,653	$ 21,464,263	$ (2,708,120)	$ 104,430,874

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Revenue:				
Government Fees and Grants	$ 103,351,928	$ 137,855	$ -	$ 103,489,783
Client Fees and Reimbursed Services	11,765,092	32,000	-	11,797,092
Investment Income (Losses)	9,196	(255,950)	99,689	(147,065)
Other Gains (Losses)	1,033,249	28,306	-	1,061,555
Total Revenue	116,159,465	(57,789)	99,689	116,201,365
Public Support:				
Contributions	2,991,667	2,710,026	216,488	5,918,181
Nongovernmental Grants	45,323	3,288,846	-	3,334,169
Church	515,594	425,027	-	940,621
United Way	158,805	868,635	-	1,027,440
Total Public Support	3,711,389	7,292,534	216,488	11,220,411
Net Assets Released from Restriction	8,398,937	(8,398,937)	-	-
Total Revenue and Public Support	128,269,791	(1,164,192)	316,177	127,421,776
EXPENSES				
Program Service:				
Services for Children/Youth/Families/CFCL	28,252,155	-	-	28,252,155
Services for Older Adults	12,837,575	-	-	12,837,575
Services for People with Disabilities	69,205,331	-	-	69,205,331
Total Program Service Expenses	110,295,061	-	-	110,295,061
Support Service:				
Management and General	12,937,295	-	-	12,937,295
Fundraising	2,959,429	-	-	2,959,429
Total Support Service Expenses	15,896,724	-	-	15,896,724
Total Expenses	126,191,785	-	-	126,191,785
CHANGE IN NET ASSETS - OPERATIONS	2,078,006	(1,164,192)	316,177	1,229,991
NON-OPERATING				
Pass-Through Revenues	7,056,920	-	-	7,056,920
Pass-Through Expenditures	(7,056,920)	-	-	(7,056,920)
	-	-	-	-
Additional Pension Increase	(383,126)	-	-	(383,126)
Change in Value of Split Interest Agreements	7,814	(90,440)	-	(82,626)
Change in Value of Trusts	(7,251)	(2,093)	152,789	143,445
Change in Value of Investments	-	333,547	-	333,547
Change in Value of Beneficial Interest Holdings	-	-	(83,488)	(83,488)
Children's Home Society of Minnesota Affiliation	-	-	-	-
Noncontrolling Interest of LSS Park Avenue Apartments LP and Rolling Hills-St. Paul Apartments LP	(739,725)	-	-	(739,725)
Other Non-Operating Losses	-	-	-	-
Change in Nets Assets Non-Operating	(1,122,288)	241,014	69,301	(811,973)
CHANGE IN NET ASSETS	955,718	(923,178)	385,478	418,018
Net Assets - Beginning of Year	10,938,173	31,794,982	12,812,185	55,545,340
NET ASSETS - END OF YEAR	$ 11,893,891	$ 30,871,804	$ 13,197,663	$ 55,963,358

See accompanying Notes to Consolidated Financial Statements.

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 96,700,299	$ 309,355	$ -	$ 97,009,654
11,705,799	177,471	-	11,883,270
(3,025)	236,327	2,520	235,822
530,218	(18,185)	-	512,033
108,933,291	704,968	2,520	109,640,779
4,869,332	1,736,064	692,363	7,297,759
41,178	2,845,217	-	2,886,395
665,857	292,254	-	958,111
313,817	695,584	-	1,009,401
5,890,184	5,569,119	692,363	12,151,666
6,223,358	(6,273,833)	50,475	-
121,046,833	254	745,358	121,792,445
27,597,101	-	-	27,597,101
12,273,007	-	-	12,273,007
62,503,371	-	-	62,503,371
102,373,479	-	-	102,373,479
12,148,019	-	-	12,148,019
3,060,072	-	-	3,060,072
15,208,091	-	-	15,208,091
117,581,570	-	-	117,581,570
3,465,263	254	745,358	4,210,875
6,642,981	-	-	6,642,981
(6,642,981)	-	-	(6,642,981)
-	-	-	-
(6,927,298)	-	-	(6,927,298)
6,103	(250,242)	-	(244,139)
-	(3,737)	(133,718)	(137,455)
14,501	(95,582)	-	(81,081)
-	-	(77,614)	(77,614)
(1,748,000)	6,866,628	8,113,268	13,231,896
509,632	-	-	509,632
(159,475)	-	-	(159,475)
(8,304,537)	6,517,067	7,901,936	6,114,466
(4,839,274)	6,517,321	8,647,294	10,325,341
15,777,447	25,277,661	4,164,891	45,219,999
$ 10,938,173	$ 31,794,982	$ 12,812,185	$ 55,545,340

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016			
		Support Services		
	Program Service	Management and General	Fundraising	Total
Salaries	$ 44,856,557	$ 6,715,028	$ 1,497,517	$ 53,069,102
Employee Benefits and Payroll Taxes	12,372,069	1,817,475	299,277	14,488,821
Total Personnel Costs	57,228,626	8,532,503	1,796,794	67,557,923
Professional Fees and Contract Services	1,554,612	1,736,322	289,023	3,579,957
Supplies	709,844	51,747	3,149	764,740
Communication	1,283,533	294,858	574,085	2,152,476
Occupancy	5,457,729	765,953	130,054	6,353,736
Equipment	409,813	266,068	40,218	716,099
Transportation	2,385,758	156,409	34,960	2,577,127
Staff Development	733,085	562,835	44,031	1,339,951
Client and Volunteer Expense	36,268,905	60,234	14,083	36,343,222
Other	608,976	290,647	33,032	932,655
Total Expense Before Depreciation	106,640,881	12,717,576	2,959,429	122,317,886
Depreciation	3,654,180	219,719	-	3,873,899
Total Expense	$ 110,295,061	$ 12,937,295	$ 2,959,429	$ 126,191,785

See accompanying Notes to Consolidated Financial Statements.

2015			
	Support Services		
Program Service	Management and General	Fundraising	Total
$ 42,465,598	$ 6,459,999	$ 1,504,818	$ 50,430,415
11,569,685	1,610,761	345,556	13,526,002
54,035,283	8,070,760	1,850,374	63,956,417
1,518,186	1,434,948	311,581	3,264,715
735,983	55,870	8,144	799,997
1,418,611	257,535	590,445	2,266,591
5,460,795	789,811	109,109	6,359,715
450,756	260,853	50,420	762,029
2,510,688	133,662	36,369	2,680,719
801,450	513,528	72,224	1,387,202
33,169,800	48,196	8,768	33,226,764
151,269	349,799	22,638	523,706
100,252,821	11,914,962	3,060,072	115,227,855
2,120,658	233,057	-	2,353,715
$ 102,373,479	$ 12,148,019	$ 3,060,072	$ 117,581,570

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 418,018	$ 10,325,341
Change in Value of Split Interest Agreements	90,440	250,242
Change in Value of Trusts	(409,137)	137,455
Asset Retirement Obligations	(16,925)	(7,238)
Adjustment for Pension Liability	(816,874)	6,039,275
Noncash Donations of Low Interest Loans	(366,021)	(109,355)
Increase in Accrued Interest	83,464	49,334
Restricted Contributions of Long-Lived Assets	(216,488)	-
Bad Debt Adjustment	484,575	(57,055)
Realized and Unrealized Gain on Investments	(16,786)	(62,508)
Depreciation	4,757,900	2,975,306
Amortization of Capital Lease Assets	110,921	150,506
Amortization - Other	74,647	72,241
(Gain) Loss on Sale of Land, Building, and Equipment	(171,606)	462,844
Noncash Children's Home Society of Minnesota Affiliation Contributions	-	(12,974,997)
(Increase) Decrease in Receivables	(1,774,054)	9,256,833
Increase in Other Assets	(3,942,686)	(577,417)
Increase (Decrease) in Current Liabilities	547,603	(3,677,757)
Net Cash Provided (Used) by Operating Activities	(1,163,009)	12,253,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(292,946)	(2,597,233)
Proceeds from Sale of Investments	422,072	2,013,774
Proceeds from Sale of Land, Building, and Equipment	324,905	65,382
Capital Expenditures	(3,513,156)	(2,779,732)
Net Cash Used by Investing Activities	(3,059,125)	(3,297,809)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Payments	(545,000)	-
Long-Term Debt Payments	(504,637)	(6,513,831)
Proceeds from the Issuance of Debt	5,012,995	561,505
Increase in Intangible Assets (Acquisition of Controlling Interest in PICS)	(75,000)	-
Restricted Contributions of Long-Lived Assets	216,488	-
Distributions from Trusts	296,814	78,235
Net Cash Provided (Used) by Financing Activities	4,401,660	(5,874,091)
NET INCREASE IN CASH AND CASH EQUIVALENTS	179,526	3,081,150
Cash and Cash Equivalents - Beginning of Year	11,168,421	8,087,271
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 11,347,947	$ 11,168,421

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
SUPPLEMENTAL INFORMATION		
Cash Paid for Interest	$ 247,200	$ 218,512
NONCASH TRANSACTIONS		
Noncash Children's Home Society of Minnesota Affiliation Contributions	$ -	$ (12,974,997)

See accompanying Notes to Consolidated Financial Statements.

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 the following Affiliates:

- Children's Home Society of Minnesota
- Lutheran Social Service of Minnesota Foundation
- Rezek House LLC
- LSS Townhomes LLC
- LSS Supportive Housing LLC
- Partners in Community Supports, Inc.
- CFCL LLC
- LSS Development LLC
- LSS Park Avenue Apartments LP
- RH-Saint Paul Apartments LP
- LSS Rolling Hills LLC
- CFCL Duluth LLC

Children's Home Society of Minnesota (CHS) is incorporated as a nonprofit organization. CHS exists to help children thrive, and to build, strengthen and sustain individual, family and community life. CHS was affiliated with the Organization on October 1, 2014 (see Note 13). The year-end of CHS is June 30, which differs from the Organization's year-end of September 30.

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

- Children, Youth, Families and the Center for Changing Lives
- Services for Older Adults
- People with Disabilities

The Organization has over 350 program units in over 300 locations in the State of Minnesota that provided services to more than 100,000 persons in 2016.

Basis of Presentation

Net assets and revenues, public 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:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those assets which the board has set aside for a particular purpose.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted – 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.

Revenues are reported as an increase in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as a 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.

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.

Accounts Receivable

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. An allowance is estimated for accounts receivable 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, 2016 and 2015, the allowance for uncollectible accounts was $280,391 and $148,633, 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. The Organization's capitalization threshold for assets with useful life of greater than one year is $1,500.

Artwork has been donated to the Organization strictly for the enjoyment of people we serve and other stakeholders. Such donations are recorded at fair market value. These assets are not depreciated but are evaluated annually for impairment.

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 transferring amounts from temporarily restricted funds to unrestricted funds.

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.

Goodwill

The Organization acquired controlling interest in Partners in Community Supports, Inc. (PICS) effective April 1, 2008 recognizing goodwill in the amount of $729,207.

During fiscal year 2010, the Organization purchased substantially all the assets, excluding real estate, of Empowerment Services Inc. (ESI), a Minnesota corporation, recognizing goodwill in the amount of $350,000.

On June 30, 2013, PICS acquired the customers of two other Fiscal Support entities (Dungarvin & CCP) recognizing an additional $300,000 in goodwill.

In fiscal year 2016, LSS acquired two group homes located in Elk River from Opportunity Partners recognizing $75,000 in goodwill from the transaction.

The Organization does not amortize goodwill. Goodwill is tested for impairment using a qualitative assessment to determine whether it is more likely than not that the fair value is less than its carrying amount.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $4,804 and $5,028 for the years ended September 30, 2016 and 2015, respectively.

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 $684,094 and $766,889 at September 30, 2016 and 2015, respectively. The assets are recorded in the Other Assets on the consolidated statements of financial position.

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 2016, is booked at present value of $725,075, as an asset of $1,731,332 and an offsetting liability of $1,006,257 for the value of the future obligations under the trust. As of 2015, the value of the trust was booked at present value of $657,895, as an asset of $1,664,502 and an offsetting liability of $1,006,607 for the value of the future obligations under the trust. The Pittman Trust assets are recorded in the Investments line and the Pittman Trust liability is recorded in the Obligation Under Trust Agreement line on the consolidated statements of financial position.

Various other trust and annuity liabilities have also been recorded at September 30, 2016. The total of these liabilities that have been recorded in the Obligation Under Trust Agreement line on the consolidated statements of financial position totaled $47,110 and $130,352 at September 30, 2016 and 2015, respectively.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $166,915 and $183,840 at September 30, 2016 and 2015, respectively.

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.

Adoption Fees

Adoption fee revenue is included as a part of Client Fees and Reimbursed Services on the statement of activities. Revenue recognition of adoption fees occurs as follows: Half of the initial coordination fees are recognized at the initiation of the adoption process; the remaining portion is amortized over 18 months, management’s estimated average length of time until an adoption is completed.

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.

Advertising Expenses

Advertising expenditures are expensed as incurred. Advertising expense for the years ended September 30, 2016 and 2015 totaled $121,021 and $224,707, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, Children's Home Society of Minnesota, and Partners In Community Supports, Inc. (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 LLC, and CFCL Duluth LLC are single member limited liability companies, the activities of which are reported within the activities of 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.

LSS Park Avenue Apartments LP and LSS Development LLC are taxable entities formed as part of the financing of Park Avenue Apartments. The project provides low income individuals and families a quality place to live at below market rates. After the tax credit financing period ends in 2024, the Organization has the option to acquire the property at a bargain purchase price from their financing partner.

RH Saint Paul Apartments LP and LSS Rolling Hills LLC are taxable entities formed as a part of the financing of Rolling Hills Apartments. This project, like Park Avenue Apartments provides low income individuals and families a quality place to live at below market rates. RH Saint Paul Apartments LP is a partnership between LSS Rolling Hills LLC (a single member LLC of Lutheran Social Services of Minnesota) and RH Developer LLC (a for-profit company).

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.

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.

Non-Operating Activities

Non-operating activities consist of gains and losses and other occurrences that fall outside of the normal operations of the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2017, the date the consolidated financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2016 and 2015 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, 2016 and 2015. The allowance for uncollectible accounts was $23,680 and $48,475 for 2016 and 2015, respectively.

	2016	2015
Unconditional Pledges Receivable	$ 1,980,823	$ 1,962,802
Unamortized Discount	(28,830)	(45,287)
Allowance for Uncollectible Accounts	(23,680)	(48,475)
Total	$ 1,928,313	$ 1,869,040
Amounts Due in:		
Less Than One Year	$ 1,157,640	$ 1,726,287
Greater Than One Year	823,183	236,515
Total	$ 1,980,823	$ 1,962,802

Pledges receivable are recorded on the financial statements as follows:

	2016	2015
Current Pledges Receivable	1,133,961	$ 1,677,812
Long-Term Pledges Receivable	794,352	191,228
Total	$ 1,928,313	$ 1,869,040

Pledges receivable from board members and employees totaled $196,658 and $272,937 at September 30, 2016 and 2015, 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.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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).

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).

In 2016, the Organization adopted ASU No. 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share expedient. This has been applied retrospectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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

	2016			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 5,139,839	$ -	$ -	$ 5,139,839
Fixed Income	1,299,395	-	-	1,299,395
Mutual Funds	1,095,113	-	-	1,095,113
Bonds	-	580,322	-	580,322
Real Asset Securities	280,878	-	-	280,878
Total Investments Measured at Fair Value on a Recurring Basis	$ 7,815,225	$ 580,322	$ -	$ 8,395,547
BENEFICIAL INTEREST IN PERPETUAL TRUST	$ -	$ -	$ 4,281,321	$ 4,281,321

	2015			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 5,225,605	$ -	$ -	$ 5,225,605
Fixed Income	1,349,413	-	-	1,349,413
Mutual Funds	1,006,234	-	-	1,006,234
Bonds	-	613,196	-	613,196
Real Asset Securities	212,632	-	-	212,632
Total Investments Measured at Fair Value on a Recurring Basis	$ 7,793,884	$ 613,196	$ -	$ 8,407,080
BENEFICIAL INTEREST IN PERPETUAL TRUST	$ -	$ -	$ 4,212,021	$ 4,212,021

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:

	2016	2015
Total Investments	$ 11,144,942	$ 11,166,313
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(233,876)	(228,660)
Dynamic Asset Overlay	(1,750,784)	(1,849,777)
Alternative Investments	(907,662)	(1,000,523)
CHS Investments Within Other Assets	142,927	319,727
Total Investments Measured at Fair Value on a Recurring Basis	$ 8,395,547	$ 8,407,080

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:

Investments – 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.

Beneficial Interest in Perpetual Trusts – 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.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2016 and 2015:

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2015	$ 4,212,021
Distribution	(250,561)
Change in Value	319,861
Balance as of September 30, 2016	$ 4,281,321

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2014	$ 2,703,958
Distribution	(78,235)
Children's Home Society of Minnesota Affiliation	1,719,394
Change in Value	(133,096)
Balance as of September 30, 2015	$ 4,212,021

The unobservable inputs for Alternative Investments and Beneficial Interest in Perpetual Trusts are the underlying assets controlled by the trustee. The underlying assets consist of securities that are classified as Level 3 assets and the Organization's fair value is determined by taking the fund or trust's total value multiplied by their interest in the fund or trust, as stated in the fund and trust document.

Net Asset Value Per Share

The Organization invests primarily in investment funds, limited partnerships, or interest bearing securities, referred to collectively for this purpose as investment funds. Investment funds are presented in the accompanying financial statements at fair value as determined under FASB Accounting Standards Codification ASC 820; *Fair Value Measurements and Disclosures*. In situations where the investment fund does not have readily determinable net asset value per share or its equivalent. The following table lists investments in investment funds by major category:

	2016 Net Asset Value	2015 Net Asset Value	Underfunded Commitments	Redemption Frequency	Redemption Notice Period
Dynamic Asset Allocation Overlay	$ 1,750,784	$ 1,849,777	$ -	Monthly	90 Days
Alternative Investments	907,662	1,000,523	-	Monthly	30 Days
	$ 2,658,446	$ 2,850,300	$ -		

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Basis for Fair Value Measurements

Dynamic Asset Allocation Overlay

Dynamic asset allocation overlay funds include investments in two portfolios that no longer have active tickers. The investment objective of these two portfolios is to moderate the volatility of an equity-oriented asset allocation over the long-term. Accordingly, the portfolios may invest in a diversified portfolio of securities. The fund strikes a daily net asset value (NAV), but because these portfolios are now private, this is not published on the NASDAQ.

Alternative Investments

Alternative investments represent ownership interest in a fund that exists to seek long-term capital appreciation. The fund seeks to achieve its investment objective primarily by allocating its assets among investments in a diversified portfolio of private investment vehicles, commonly referred to as hedge funds. The fund pursues the following strategies: long/short equity, event driven, credit/distressed, emerging markets, global macro, and other strategies. The fund is valued and traded monthly and generally uses the NAV provided by the underlying portfolios to determine the monthly value of the fund.

NOTE 4 LAND, BUILDING, AND EQUIPMENT

Cost and related accumulated depreciation at September 30, 2016 and 2015 were:

	2016		2015	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 5,405,711	$ -	$ 5,229,411	$ -
Land Improvements	1,232,773	664,103	1,240,062	657,436
Construction in Process	2,131,844	-	449,737	-
Building and Building Improvements	65,947,483	21,718,865	65,406,364	19,673,468
Equipment	15,452,852	10,653,554	15,238,761	8,709,929
Vehicles	152,933	141,703	152,933	133,021
Capital Lease - Vehicles	1,280,248	1,187,264	1,280,248	1,076,343
Donated Artwork	312,710	-	312,710	-
	$ 91,916,554	$ 34,365,489	$ 89,310,226	$ 30,250,197
Net Land, Building, and Equipment	$ 57,551,065		$ 59,060,029	

The Construction in Process relates to the construction of the Center for Changing Lives in Duluth.

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Organization has two perpetual trusts included in permanently restricted net assets. Under the terms of the trusts, the Organization has the irrevocable right to receive the income on trust assets, subject to certain limitations, but will never receive the assets held in trust. The unrealized gains or losses and the undistributed earnings on the trusts are reported as additions or subtractions to the permanently restricted net asset balances.

The Anderson Trust was valued at $2,723,029 and $2,570,241 at September 30, 2016 and 2015, respectively. The distributed income from this trust is to be used for children and adults with disabilities within a 50-mile radius of the old Vasa home located near Red Wing, Minnesota. Income distributions from the trust were $133,066 and $-0- for the years ended September 30, 2016 and 2015, respectively.

The Humphrey Trust was valued at $1,558,292 and $1,641,780 at September 30, 2016 and 2015, respectively. This trust was assumed as part of the affiliation with Children's Home Society of Minnesota (see Note 13). The Organization was named as a 5% beneficiary of the trust and receives 5% of the designated distributions from the trust. Distributions from the trust were $117,494 and $78,235 for the years ended September 30, 2016 and 2015, respectively.

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plan

The Organization has a noncontributory defined benefit pension plan. The Organization froze its defined benefit pension plan for all participants. The plan provided 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.

The measurement dates used for the Plan disclosures are as of September 30, 2016 and 2015 and for the years then ended.

The changes in the projected benefit obligation are as follows:

	2016	2015
Change in Projected Benefit Obligation:		
Projected Benefit Obligation at Beginning of Year	$ 40,877,618	$ 36,537,545
Interest Cost	1,816,422	1,678,585
Actuarial Loss (Gain)	29,616	(149,012)
Assumption Changes	-	4,910,324
Benefits Paid	(2,226,970)	(2,099,824)
Projected Benefit Obligation at End of Year	$ 40,496,686	$ 40,877,618

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

	2016	2015
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	$ 20,584,942	$ 22,284,144
Actual Return on Plan Assets	1,622,094	(649,444)
Employer Contribution	1,200,000	1,200,000
Expenses	(159,182)	(149,934)
Benefits Paid	(2,226,970)	(2,099,824)
Fair Value of Plan Assets at End of Year	$ 21,020,884	$ 20,584,942
Funded Status of the Plan:		
Benefit Obligation	$ 40,496,686	$ 40,877,618
Fair Value of Plan Assets	21,020,884	20,584,942
Excess of Benefit Obligation Over Fair Value of Plan Assets	$ (19,475,802)	$ (20,292,676)
Components of Net Periodic Benefit Costs:		
Interest Cost	$ 1,816,422	$ 1,678,585
Expected Return on Plan Assets	(1,605,717)	(1,746,739)
Amortization of Net Loss	609,624	380,131
Net Periodic Pension Cost	$ 820,329	$ 311,977
Underfunded Plan Information:		
Projected Benefit Obligation at End of Year	$ 40,496,686	$ 40,877,618
Accumulated Benefit Obligation at End of Year	40,496,686	40,877,618
Fair Value of Assets at End of Year	21,020,884	20,584,942

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

	2016	2015
Actuarial Assumptions		
Assumptions Used to Determine Benefit Obligations at September 30:		
Assumed Discount Rate	4.25%	4.75%
Assumed Annual Increase in Salaries	-	-
Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended September 30:		
Assumed Discount Rate	4.75%	4.75%
Expected Long-Term Return on Plan Assets	8.00%	8.00%
Assumed Annual Increase in Salaries	-	-

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (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, 2016 and 2015 (the measurement date) by asset category is as follows:

	2016	2015
The Plan assets are invested as follows:		
Equity Securities	68%	85%
Debt Securities	32%	15%

Fair Value Measurement of Plan Assets

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:

	2016			
	Level 1	Level 2	Level 3	Total
Investment:				
Equities	$ 7,010,518	$ 2,056,633	$ -	$ 9,067,151
Mutual Funds	-	7,482,674	-	7,482,674
Bonds	-	4,401,798	-	4,401,798
Total	$ 7,010,518	$ 13,941,105	$ -	$ 20,951,623

	2015			
	Level 1	Level 2	Level 3	Total
Investment:				
Equities	$ 6,284,493	$ -	$ -	$ 6,284,493
Mutual Funds	-	11,184,629	-	11,184,629
Bonds	-	3,045,466	-	3,045,466
Total	$ 6,284,493	$ 14,230,095	$ -	$ 20,514,588

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Fair Value Measurement of Plan Assets (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:

	2016	2015
Total Investments	$ 21,020,884	$ 20,584,942
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(69,261)	(70,354)
Total Investments Measured at Fair Value on a Recurring Basis	$ 20,951,623	$ 20,514,588

Current Funding and Estimated Future Benefit Payments

The Organization provided funding to the plan of $1,200,000 during the years ended 2016 and 2015. Additional funding of $1,200,000 annually is expected.

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

Year Ending September 30,	Amount
2017	$ 2,151,972
2018	2,228,998
2019	2,308,836
2020	2,424,676
2021	2,546,585
2022-2026	13,051,401

Other Postretirement 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 2016 and 2015, 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 2016 and 2015 was 2% 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 were $1,472,572 and $1,387,641 for the years ended September 30, 2016 and 2015, 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 $6,700,000. The self-insured medical, dental, and short-term disability expense recorded in the Organization's financial statements was $7,445,370 and $6,868,781 in 2016 and 2015, respectively. The Organization has recorded liabilities of $1,494,840 and $1,260,168 for claims incurred but not yet paid as of September 30, 2016 and 2015, respectively. The trust is a separate 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, 2016 and 2015, the Organization has recorded liabilities of $517,525 and $689,620, 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

		2016		2015	
Description	Security	Face Value	Current Value	Face Value	Current Value
4.92% to 5.70% City of Brainerd, Minnesota, Tax-Exempt Series 2001A, B and C Bonds	Houses, Computer and Motor Vehicles	$ -	$ -	$ 70,968	$ 70,968
Note Payable to American National Bank of Minnesota, Interest at 5%, Due through May 21, 2018.	Land and Buildings	63,071	63,071	100,238	100,238
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2020 *	Safe House Land and Building	40,439	6,572	40,439	8,593
US Bank Short-Term Bank Note, Interest at 3.19%	Accounts Receivable and Inventory	-	-	72,604	72,604

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

		2016		2015	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Non-Interest Bearing, Forgivable in 2037 *	Land and Building	$ 600,000	$ 421,668	$ 600,000	$ 441,668
Note Payable to Sunrise Bank, N.A. 3.90% Interest bearing, Due September 8, 2025	Harmony House	281,978	281,978	287,005	287,005
Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due May 18, 2026	LaVine McGregor	421,578	421,578	-	-
Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due October 5, 2026	Grand Place	187,000	187,000	-	-
Capital Leases	Vehicles	100,216	100,216	210,447	210,447
Subtotal for Lutheran Social Service of Minnesota		1,694,282	1,482,083	1,381,701	1,191,523
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2020 *	Land and Building	521,674	86,946	521,674	113,029
Note Payable to City of St. Paul Housing and Redevelopment Authority, Interest at 2%, Principal and Interest due through December 31, 2026	Land and Building	396,500	277,343	390,500	264,708
Subtotal for Rezek House LLC		918,174	364,289	912,174	377,737
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable May 16, 2033 *	Land and Buildings	1,720,580	967,676	1,720,580	1,025,591
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	119,420	72,251	119,420	70,146
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	130,000	79,521	130,000	77,206
Note Payable to Minnesota Community Development Authority, Interest at 1%, Principal and Interest due May 16, 2033	Land and Buildings	340,000	238,061	337,000	231,127
Subtotal for LSS Townhomes LLC		2,310,000	1,357,509	2,307,000	1,404,070

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

		2016		2015	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 19, 2034	Land and Buildings	$ 126,000	$ 71,715	$ 126,000	$ 69,457
Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1%, Principal and Interest due May 19, 2034	Land and Buildings	292,069	192,226	289,469	186,170
Note Payable to City of Minneapolis, Interest at 1%, Principal and Interest due May 19, 2034	Land and Buildings	286,100	188,415	283,555	182,488
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Due May 19, 2034	Land and Buildings	600,000	341,500	600,000	330,750
Note Payable to City of Minneapolis, Non-Interest Bearing, Forgivable May 19, 2034 *	Land and Buildings	100,000	58,612	100,000	61,944
Total for LSS Supportive Housing LLC		1,404,169	852,468	1,399,024	830,809
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2046 *	Land and Buildings	4,200,000	4,165,000	-	-
City of Duluth Home Loan, Non-Interest Bearing, Forgivable in 2046 *	Land and Buildings	200,000	198,330	-	-
Total Center for Changing Lives Duluth LLC		4,400,000	4,363,330	-	-
Note Payable to Wells Fargo, N.A.; Interest at 3.61% plus LIBOR Rate, Due through December 31, 2017	Center For Changing Lives - Building and Improvements	2,183,117	2,183,117	2,338,735	2,338,735
Total for LSS Center for Changing Lives		2,183,117	2,183,117	2,338,735	2,338,735
Note Payable to City of Minneapolis AHTF, Interest at 5.50%, Principal and Interest due May 31, 2037	Park Avenue Apartments	804,905	804,905	762,155	762,155
Note Payable to Hennepin County AHIF, Interest at 1%, Principal and Interest due November 15, 2037	Park Avenue Apartments	435,504	435,504	431,504	431,504
Total for Park Avenue Apartments		1,240,409	1,240,409	1,193,659	1,193,659

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

		2016		2015	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Sunrise Bank N.A, Interest at 3.13%, Due March 20, 2045	Rolling Hills Apartments	$ 2,943,921	$ 2,943,921	$ 2,992,526	$ 2,992,526
Note Payable to Lake Energy Investment, Inc., Interest at 7%, Due June 20, 2034	Rolling Hills Apartments	312,069	312,069	288,508	288,508
Note Payable to St. Paul City HRA (CDBG), Interest at 3%, Due December 1, 2045	Rolling Hills Apartments	53,991	53,991	52,397	52,397
Note payable to MHFA, 0% Interest Bearing, Due June 20, 2043	Rolling Hills Apartments	300,000	91,246	300,000	87,437
Note payable to Family Housing Fund, 0% Interest Bearing, Due June 20, 2043	Rolling Hills Apartments	200,000	60,833	200,000	58,294
Note Payable to Housing & Redevelopment Authority of St. Paul (Home Loan), Interest at 1%, Due June 20, 2045	Rolling Hills Apartments	321,984	321,984	300,170	311,860
Total for Rolling Hills Apartments		4,131,965	3,784,044	4,133,601	3,791,022
Total Long-Term Debt and Conditional Grants		18,282,116	15,627,249	13,665,894	11,127,555
Less: Conditional Grants		7,382,693	5,904,804	2,982,693	1,650,825
Total Debt		10,899,423	9,722,445	10,683,201	9,476,730
Less: Current Maturities of Long-Term Debt		350,734	350,734	498,344	498,344
Long-Term Debt, Excluding Current Maturities and Conditional Grants		$ 10,548,689	$ 9,371,711	$ 10,184,857	$ 8,978,386

* 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
2017	$ 350,734
2018	2,147,157
2019	80,898
2020	84,069
2021	87,241
Thereafter	6,972,346
Total	$ 9,722,445

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

Land and buildings with a net book value of $22,936,468 and $22,915,357 are pledged as collateral at September 30, 2016 and 2015, respectively, primarily on MHFA mortgage notes.

Lines of Credit

The Organization has a total of $3,000,000 of working capital lines of credit with U.S. Bank. The lines bear interest on outstanding borrowings at the bank's reference rate (3.25% at September 30, 2016) and mature on April 20, 2016. At September 30, 2016 and 2015, the amount outstanding was $-0-.

The Organization also has a line of credit with Sunrise Bank in the amount of $3,000,000. This line bears interest on outstanding borrowings at the bank's reference rate (3.75% at September 30, 2016) and matures on April 30, 2017. At September 30, 2016 and 2015, the amount outstanding was $1,730,169 and $2,050,667, respectively.

On September 23, 2015, the Organization entered into a line of credit with Sunrise Bank for $300,000. This line bears interest on outstanding borrowings at the bank's reference rate (3.75% at September 30, 2016) and matures on December 23, 2016. At September 30, 2016 and 2015, the outstanding amount was $-0- and $224,500, respectively.

Rolling Hills

During 2013, RH-St. Paul Apartments LP established a construction loan at Sunrise Bank of up to $9.476 million for the Rolling Hills Project. This note is secured by real property owned by the partnership.

RH-St. Paul Apartments is a limited partnership consisting of the following general partners:

- LSS Rolling Hills LLC – a single member LLC of Lutheran Social Service of MN.
- RH Developer LLC – a for-profit company engaged in leasing and property management.

The balance outstanding on the loan as of September 30, 2016 and 2015 was $2,943,921 and $2,992,526, respectively, with interest accruing at 3.125% during the construction phase. The loan converted to permanent financing on March 20, 2015. Interest will accrue at 4.5% (updated to LIBOR plus 2.5% every 5 years) and principal payments will commence until maturity on March 20, 2045.

On October 2, 2014, NEF, the limited partner, made a capital contribution to the partnership in the amount of $6.4 million. The proceeds were used to pay down this loan.

NOTE 9 LEASES

The Organization has operating lease agreements for office space, residential facilities, 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, 2016, 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
2017	$ 3,060,543
2018	2,380,218
2019	1,362,832
2020	977,646
2021	381,543
Thereafter	313,331
Total	$ 8,476,113

Rental expense for all operating leases was $3,407,071 and $3,358,591 for the years ended September 30, 2016 and 2015, 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 $1,280,248 at both September 30, 2016 and 2015. Accumulated depreciation was $1,187,264 and $1,076,343 at September 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

Year Ending September 30,	Amount
2017	$ 77,171
2018	25,830
Total Lease Payments	103,001
Less Interest Expense	(2,785)
Total Minimum Lease Payments	$ 100,216

NOTE 10 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	2016	2015
Split Interest Deferred Gifts / Trusts	$ 1,551,634	$ 1,598,859
Donations and Forgivable Loan Interest for Property	22,414,040	18,319,381
Cash Restricted by Donors for Specific Program Use	6,906,130	11,876,742
Total	$ 30,871,804	$ 31,794,982

Permanently Restricted

Permanently restricted net assets with investment return restricted for the following purposes at September 30, 2016 and 2015 are as follows:

	2016	2015
Beneficial Interest in Perpetual Trusts	$ 4,281,321	$ 4,212,021
Endowment Investments	8,906,418	8,590,243
Other	9,924	9,921
Total	$ 13,197,663	$ 12,812,185

Net Assets Released from Restrictions

The net assets released from restrictions as of September 30, 2016 and 2015 consist of the following:

	2016	2015
Time and Purpose Releases	$ 6,033,285	$ 5,655,934
Building Releases	2,365,652	617,899
Total	$ 8,398,937	$ 6,273,833

NOTE 11 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.

NOTE 11 ENDOWMENTS (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $-0- as of September 30, 2016 and 2015.

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).

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

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:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2015	$ -	$ 876,276	$ 8,590,243	$ 9,466,519
Contributions	-	-	216,978	216,978
Investment Return:				
Investment Income	-	53,691	99,197	152,888
Investment Expenses	-	(13,561)	-	(13,561)
Realized Gains (Losses)	-	(244,903)	-	(244,903)
Unrealized Gains	-	182,941	-	182,941
Total Investment Return	-	(21,832)	99,197	77,365
Appropriations	-	(341,331)	-	(341,331)
Endowment Fund Balance, September 30, 2016	$ -	$ 513,113	$ 8,906,418	$ 9,419,531

NOTE 11 ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters, Investment and Spending Policies for the Organization's Foundation (Continued)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2014	$ -	$ 285,172	$ 1,451,604	$ 1,736,776
Contributions	-	-	742,336	742,336
Investment Return:				
Investment Income	-	47,131	2,429	49,560
Investment Expenses	-	(16,108)	-	(16,108)
Realized Gains	-	1,974	-	1,974
Unrealized Gains	-	15,826	-	15,826
Total Investment Return	-	48,823	2,429	51,252
Appropriations		(191,079)		(191,079)
Children's Home Society of Minnesota Affiliation	-	733,360	6,393,874	7,127,234
Endowment Fund Balance, September 30, 2015	$ -	$ 876,276	$ 8,590,243	$ 9,466,519

NOTE 12 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. In 2016, Luther Seminary sold land on the Como Avenue site to a developer, triggering a bargain purchase price option which the Organization plans to exercise in 2017.

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, 2016 and 2015, the Organization was the guardianship or conservator of estates totaling $51,544,105 and $37,708,454, respectively.

LSS Pooled Trusts allow people with disabilities and/or their families to set aside money for additional needed expenses while protecting their public or private benefits such as Medicaid and Social Security. As of September 30, 2016 and 2015, assets held in the pooled trust amounted to $15,238,451 and $10,671,766, 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, 2016 and 2015.

NOTE 13 CHILDREN'S HOME SOCIETY OF MINNESOTA AFFILIATION

Effective July 1, 2012, the Organization entered into a management services agreement with Children's Home Society of Minnesota (CHS). On October 1, 2014, the LSS and CHS board of directors approved an affiliation agreement whereas LSS will have control of up to 70% of CHS's board of directors.

Below is a summary of the transfer of Children's Home Society of Minnesota's financial position into the Organization on October 1, 2014:

Current Assets	$ 1,374,856
Property and Equipment, Net	6,717,075
Investments	7,176,636
Other Assets	339,109
Beneficial Interest and Perpetual Trust	1,719,394
Total Assets	$ 17,327,070
Current Liabilities	$ 1,403,744
Non-Current Liabilities	2,691,430
Unrestricted Net Deficit	(1,748,000)
Temporarily Restricted Net Assets	6,866,628
Permanently Restricted Net Assets	8,113,268
Total Liabilities and Net Assets	$ 17,327,070

Property is composed of land, building, and leasehold improvements, furniture, equipment, software, and donated artwork recorded at depreciated cost. The net assets were recorded by the Organization as contribution revenue within the consolidated statement of activities.

Intercompany transactions at September 30, 2016 and 2015 relating to management fees, the leasing of space, and other expenditures have been eliminated on the consolidated financial statements.