LUTHERAN SOCIAL SERVICE OF MINNESOTA
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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CliftonLarsonAllen LLP
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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, 2014 and 2013, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Directors
Lutheran Social Service of Minnesota and Affiliates

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 27, 2015

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND 2013

	2014			
	Lutheran Social Service	LSS PAA LP and Rolling Hills	LSS PAA LP and Rolling Hills Elimination	Lutheran Social Service Consolidated
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 7,583,035	$ 504,236	$ -	$ 8,087,271
Pledges Receivable, Net	1,186,446	-	-	1,186,446
Accounts Receivable, Net	13,711,011	6,572,862	(22,191)	20,261,682
Other Current Assets	633,375	48,332	-	681,707
Total Current Assets	23,113,867	7,125,430	(22,191)	30,217,106
Net Land, Building and Equipment	33,483,586	19,885,674	(152,000)	53,217,260
Investments	3,407,727	-	-	3,407,727
Intangible Assets: Goodwill	1,379,207	-	-	1,379,207
Long-Term Pledges Receivable	373,944	-	-	373,944
Other Assets Limited to Use	58,290	333,053	-	391,343
Other Assets	1,696,060	343,079	(86,000)	1,953,139
Loan Receivable	679,000	-	(629,000)	50,000
Beneficial Interest in Perpetual Trust	2,703,958	-	-	2,703,958
Total Assets	$ 66,895,639	$ 27,687,236	$ (889,191)	$ 93,693,684
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable, Accrued Liabilities and Deferred Income	$ 5,231,355	$ 2,332,746	$ (1,059,795)	$ 6,504,306
Conditional Grants, Current	109,354	-	-	109,354
Borrowing Under Line of Credit	2,050,667	-	-	2,050,667
Accrued Payroll, Benefits, Taxes and Withholding	7,275,484	-	-	7,275,484
Current Portion of Long-Term Debt	554,439	17,228	-	571,667
Total Current Liabilities	15,221,299	2,349,974	(1,059,795)	16,511,478
Accrued Pension Liabilities	14,253,401	-	-	14,253,401
Obligation Under Trust Agreement	1,073,654	-	-	1,073,654
Conditional Grants, Long-Term	1,650,826	-	-	1,650,826
Asset Retirement Obligation	3,642	-	-	3,642
Long-Term Debt, Less Current Portion	4,071,728	11,537,956	(629,000)	14,980,684
Total Liabilities	36,274,550	13,887,930	(1,688,795)	48,473,685
NET ASSETS				
Unrestricted	1,178,537	13,799,306	799,604	15,777,447
Temporarily Restricted	25,277,661	-	-	25,277,661
Permanently Restricted	4,164,891	-	-	4,164,891
Total Net Assets	30,621,089	13,799,306	799,604	45,219,999
Total Liabilities and Net Assets	$ 66,895,639	$ 27,687,236	$ (889,191)	$ 93,693,684

See accompanying Notes to Consolidated Financial Statements.

2013			
Lutheran Social Service	LSS PAA LP and Rolling Hills	LSS PAA LP and Rolling Hills Elimination	Lutheran Social Service Consolidated
$ 6,029,364	$ 573,891	$ -	$ 6,603,255
650,704	-	-	650,704
14,208,931	15,425	(17,224)	14,207,132
651,875	10,475	-	662,350
21,540,874	599,791	(17,224)	22,123,441
34,661,485	12,923,853	(152,000)	47,433,338
3,110,294	-	-	3,110,294
1,379,207	-	-	1,379,207
440,444	-	-	440,444
61,585	1,134,279	(1,053,306)	142,558
1,587,157	310,635	(86,000)	1,811,792
11,100,529	-	(629,000)	10,471,529
2,645,229	-	-	2,645,229
$ 76,526,804	$ 14,968,558	$ (1,937,530)	$ 89,557,832
$ 4,819,729	$ 203,581	$ (17,224)	$ 5,006,086
109,354	-	-	109,354
2,051,885	-	-	2,051,885
7,054,360	-	-	7,054,360
879,705	-	-	879,705
14,915,033	203,581	(17,224)	15,101,390
12,560,777	-	-	12,560,777
1,024,373	-	-	1,024,373
1,760,181	-	-	1,760,181
3,642	-	-	3,642
15,591,725	5,090,935	(629,000)	20,053,660
45,855,731	5,294,516	(646,224)	50,504,023
2,975,611	9,674,042	(1,291,306)	11,358,347
23,711,812	-	-	23,711,812
3,983,650	-	-	3,983,650
30,671,073	9,674,042	(1,291,306)	39,053,809
$ 76,526,804	$ 14,968,558	$ (1,937,530)	$ 89,557,832

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Revenue:				
Government Fees and Grants	$ 91,728,261	$ 159,051	$ -	$ 91,887,312
Client Fees and Reimbursed Services	10,573,998	39,317	-	10,613,315
Investment Income	1,637	1,012	733	3,382
Other Gains (Losses)	666,249	(34,819)	-	631,430
Total Revenue	102,970,145	164,561	733	103,135,439
Public Support:				
Contributions	2,691,662	2,343,322	121,779	5,156,763
Grants (Nongovernmental)	786,505	2,724,797	-	3,511,302
Church	830,057	160,171	-	990,228
United Way	1,096,371	83,311	-	1,179,682
Total Public Support	5,404,595	5,311,601	121,779	10,837,975
Net Assets Released from Restriction	4,154,684	(4,154,684)	-	-
Total Revenue and Public Support	112,529,424	1,321,478	122,512	113,973,414
EXPENSES				
Program Service:				
Services for Children/Youth/Family/CFCL	24,151,433	-	-	24,151,433
Services for Senior	11,976,779	-	-	11,976,779
Services for People with Disabilities	63,005,816	-	-	63,005,816
Total Program Service Expenses	99,134,028	-	-	99,134,028
Support Service:				
Management and General	10,179,339	-	-	10,179,339
Fund Raising	2,516,560	-	-	2,516,560
Total Support Service Expenses	12,695,899	-	-	12,695,899
Total Expenses	111,829,927	-	-	111,829,927
CHANGE IN NET ASSETS - OPERATIONS	699,497	1,321,478	122,512	2,143,487
NON-OPERATING				
Pass-Through Revenues	6,281,460	25,633	-	6,307,093
Pass-Through Expenditures	(6,281,460)	(25,633)	-	(6,307,093)
	-	-	-	-
Additional Pension Increase:				
(Increase) Decrease:				
Current Period	(2,499,678)	-	-	(2,499,678)
Change in Value of Split Interest Agreements	3,107	29,758	-	32,865
Change in Value of Trusts	-	-	58,729	58,729
Change in Value of Investments	-	214,613	-	214,613
Noncontrolling Interest of LSS Park Avenue Apartments LP and Rolling Hills-St. Paul Apartments LP	6,216,174	-	-	6,216,174
Change in Nets Assets Non-Operating	3,719,603	244,371	58,729	4,022,703
CHANGE IN NET ASSETS	4,419,100	1,565,849	181,241	6,166,190
Net Assets - Beginning of the Year	11,358,347	23,711,812	3,983,650	39,053,809
NET ASSETS END OF THE YEAR	$ 15,777,447	$ 25,277,661	$ 4,164,891	$ 45,219,999

See accompanying Notes to Consolidated Financial Statements.

2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 82,248,700	$ 109,355	$ -	$ 82,358,055
10,883,575	362	-	10,883,937
2,845	-	376	3,221
680,903	16,179	-	697,082
93,816,023	125,896	376	93,942,295
2,737,535	7,044,434	215	9,782,184
640,600	1,315,919	-	1,956,519
826,691	103,008	-	929,699
1,273,613	-	-	1,273,613
5,478,439	8,463,361	215	13,942,015
3,785,470	(3,785,470)	-	-
103,079,932	4,803,787	591	107,884,310
24,970,916	-	-	24,970,916
12,569,667	-	-	12,569,667
52,540,952	-	-	52,540,952
90,081,535	-	-	90,081,535
10,358,550	-	-	10,358,550
2,148,381	-	-	2,148,381
12,506,931	-	-	12,506,931
102,588,466	-	-	102,588,466
491,466	4,803,787	591	5,295,844
5,561,003	-	-	5,561,003
(5,561,003)	-	-	(5,561,003)
-	-	-	-
4,586,746	-	-	4,586,746
(13,323)	(54,762)	-	(68,085)
-	-	70,359	70,359
51,316	230,468	-	281,784
2,443,990	-	-	2,443,990
7,068,729	175,706	70,359	7,314,794
7,560,195	4,979,493	70,950	12,610,638
3,798,152	18,732,319	3,912,700	26,443,171
$ 11,358,347	$ 23,711,812	$ 3,983,650	$ 39,053,809

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014			
		Support Services		
	Program Service	Management and General	Fund Raising	Total
Salaries	$ 38,349,664	$ 5,672,861	$ 1,315,482	$ 45,338,007
Employee Benefits and Payroll Taxes	10,745,493	1,509,761	335,911	12,591,165
Total Personnel Costs	49,095,157	7,182,622	1,651,393	57,929,172
Professional Fees and Contract Services	1,585,449	842,771	171,809	2,600,029
Supplies	734,768	26,922	6,124	767,814
Communication	1,284,343	237,428	406,569	1,928,340
Occupancy	5,334,351	657,179	116,523	6,108,053
Equipment	427,989	208,881	39,873	676,743
Transportation	2,343,253	121,685	33,882	2,498,820
Staff Development	899,749	417,731	53,424	1,370,904
Client and Volunteer Expense	33,914,754	41,439	9,646	33,965,839
Other	1,695,904	351,151	27,317	2,074,372
Total Expense Before Depreciation	97,315,717	10,087,809	2,516,560	109,920,086
Depreciation	1,818,311	91,530	-	1,909,841
Total Expense	$ 99,134,028	$ 10,179,339	$ 2,516,560	$ 111,829,927

See accompanying Notes to Consolidated Financial Statements.

2013			
	Support Services		
Program Service	Management and General	Fund Raising	Total
$ 38,623,013	$ 5,556,400	$ 1,122,698	$ 45,302,111
10,396,365	1,495,789	287,499	12,179,653
49,019,378	7,052,189	1,410,197	57,481,764
1,526,245	759,785	166,514	2,452,544
772,068	41,207	6,807	820,082
1,268,157	254,166	243,721	1,766,044
5,298,843	680,331	100,854	6,080,028
513,956	184,001	30,341	728,298
2,376,977	121,161	30,425	2,528,563
767,449	395,115	124,680	1,287,244
25,652,612	43,500	8,861	25,704,973
1,121,663	739,075	25,981	1,886,719
88,317,348	10,270,530	2,148,381	100,736,259
1,764,187	88,020	-	1,852,207
$ 90,081,535	$ 10,358,550	$ 2,148,381	$ 102,588,466

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 6,166,190	$ 12,610,638
Change in Value of Split Interest Agreements	(29,758)	54,763
Change in Value of Perpetual Trust	(58,729)	(54,008)
Adjustment for Pension Liability	1,692,624	(5,168,831)
Amortization of Deferred Gain from Tax Credit Financing	(946,114)	(463,690)
Noncash Donation of Capital Assets	-	(5,186,446)
Noncash Donations of Low Interest Loans	(109,355)	(109,355)
Increase in Accrued Interest	107,827	64,992
Bad Debt Expense	1,508,220	1,300,104
Realized and Unrealized Gain on Investments	(242,265)	(90,154)
Depreciation	2,235,120	2,090,535
Amortization of Capital Lease Assets	182,893	188,700
Amortization - Other	73,649	34,081
Prepaid Bond Fees	(291,033)	(18,917)
Gain on Sale of Land, Building and Equipment	(9,648)	(104,077)
Increase in Receivables	(8,595,924)	(4,353,695)
Decrease (Increase) in Loan Receivable	399,704	(2,269,801)
Increase in Other Assets	(112,965)	(570,191)
Increase in Current Liabilities	1,719,344	559,269
Net Cash Provided (Used) by Operating Activities	3,689,780	(1,486,083)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(4,107,743)	(793,247)
Acquisition of Intangible Assets	-	(300,000)
Proceeds from Sale of Investments	4,101,856	730,125
Proceeds from Sale of Land, Building and Equipment	18,388	266,504
Capital Expenditures	(8,210,675)	(6,781,861)
Net Cash Used by Investing Activities	(8,198,174)	(6,878,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-Term Debt Payments	(11,316,707)	(832,600)
Receipt from Repayment of CFCL Bridge Loan Receivable	10,421,530	-
Net Change in Line of Credit Borrowings	(1,218)	-
Proceeds from Sunrise Bank Line of Credit - CHS	-	1,871,565
Proceeds from the Issuance of Debt	6,724,597	3,342,174
Distribution from Perpetual Trust	164,208	164,208
Net Cash Provided by Financing Activities	5,992,410	4,545,347
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,484,016	(3,819,215)
Cash and Cash Equivalents - Beginning of Year	6,603,255	10,422,470
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,087,271	$ 6,603,255

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
SUPPLEMENTAL INFORMATION		
Cash Paid for Interest	$ 320,015	$ 274,405
NONCASH TRANSACTIONS		
Donated Capital Assets	$ -	$ 5,186,446

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:

- 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

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 over 350 program units in over 300 locations in the State of Minnesota that provided services to more than 100,000 persons in 2014.

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.

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.

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.

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, 2014 and 2013, the allowance for uncollectible accounts was $1,434,640 and $872,752, respectively.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Land, Buildings and Equipment (Continued)

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.

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 $6,144 and $10,310, respectively for the years ended September 30, 2014 and 2013.

Intangible Assets: 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.

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)

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 $1,015,220 and $986,462 at September 30, 2014 and 2013, 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 2014, is booked at present value of $638,031, as an asset of $1,711,684 and an offsetting liability of $1,073,654 for the value of the future obligations under the trust. As of 2013, the value of the trust was booked at present value of $555,841, as an asset of $1,580,214 and an offsetting liability of $1,024,373 for the value of the future obligations under the trust. The assets are recorded in the Investments line and the liability is recorded in the Obligation under Trust Agreement line on the Consolidated Statements of Financial Position.

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.

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 $3,642 at September 30, 2014 and 2013.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Contracts (Continued)

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

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, 2014 and 2013 totaled $221,671 and $192,398, 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, 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 LSS Rolling Hills LLC are single member limited liability companies, the activities of which are reported within the activities of the Organization as exempt activities. RH Saint Paul Apartments LP is a taxable partnership. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status (Continued)

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. The tax returns for the years 2011 to 2013 are open to 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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 27, 2015, the date the consolidated financial statements were available to be issued.

As described in Note 13, Children’s Home Society of Minnesota (CHS), a nonprofit organization, has been operating under a management agreement with the Organization since July 1, 2012. Effective October 1, 2014, the board of directors for both organizations have reached an agreement to affiliate operations. Under this agreement, the Organization shall appoint up to 70% of CHS’s directors.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2014 and 2013 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, 2014 and 2013. The allowance for uncollectible accounts was $24,790 and $24,915 for 2014 and 2013, respectively.

	2014	2013
Unconditional Pledges Receivable	$ 1,623,611	$ 1,123,623
Unamortized Discount	(38,431)	(7,560)
Allowance for Uncollectible Accounts	(24,790)	(24,915)
Total	$ 1,560,390	$ 1,091,148
Amounts Due in:		
Less Than One Year	$ 1,211,236	$ 675,619
One to Five Years	412,375	448,004
Total	$ 1,623,611	$ 1,123,623

Pledges receivable are recorded on the financial statements as follows:

	2014	2013
Current Pledges Receivable	$ 1,186,446	$ 650,704
Long-Term Pledges Receivable	373,944	440,444
	$ 1,560,390	$ 1,091,148

Pledges receivable from board members and employees totaled $271,428 and $328,457 at September 30, 2014 and 2013, 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.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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).

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:

	2014			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 1,592,533	$ -	$ -	$ 1,592,533
Mutual Funds	674,432	-	-	674,432
Bonds	-	997,139	-	997,139
	$ 2,266,965	$ 997,139	$ -	$ 3,264,104
BENEFICIAL INTERST IN PERPETUAL TRUST	$ -	$ -	$ 2,703,958	2,703,958

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

	2013			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 2,297,730	$ -	$ -	$ 2,297,730
Mutual Funds	333,482	-	-	333,482
Bonds	-	418,315	-	418,315
	$ 2,631,212	$ 418,315	$ -	$ 3,049,527
BENEFICIAL INTERST IN PERPETUAL TRUST	$ -	$ -	$ 2,645,229	$ 2,645,229

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:

	2014	2013
Total Investments	$ 3,407,727	$ 3,110,294
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(143,623)	(60,767)
Total Investments Measured at Fair Value on a Recurring Basis	$ 3,264,104	$ 3,049,527

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, 2014 and 2013:

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2013	$ 2,645,229
Distribution	(164,208)
Change in Value of Undistributed Trust Assets	222,937
Balance as of September 30, 2014	$ 2,703,958

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2012	$ 2,574,870
Distribution	(164,208)
Change in Value of Undistributed Trust Assets	234,567
Balance as of September 30, 2013	$ 2,645,229

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 $13,000 and $4.9 million more than the carrying value at September 30, 2014 and 2013, respectively.

NOTE 4 LAND, BUILDING AND EQUIPMENT

Cost and related accumulated depreciation at September 30, 2014 and 2013 were:

	2014		2013	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 4,656,371	$ -	$ 4,581,207	$ -
Land Improvements	987,365	629,151	940,108	603,207
Construction in Process	971,593	-	1,400,512	-
Building and Building Improvements	55,458,574	15,572,330	48,004,876	14,497,086
Equipment	13,312,489	6,350,656	13,389,920	6,375,960
Vehicles	159,808	131,214	201,948	164,672
Capital Lease - Vehicles	1,280,248	925,837	1,320,896	765,204
	76,826,448	$ 23,609,188	69,839,467	$ 22,406,129
Net Land, Building and Equipment	$ 53,217,260		$ 47,433,338	

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Anderson Trust, a perpetual trust in the amount of $2,703,958 and $2,645,229 at September 30, 2014 and 2013, 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 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 $164,208 for the years ended September 30, 2014 and 2013.

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, 2014 and 2013 and for the years then ended.

The changes in the projected benefit obligation are as follows:

	2014	2013
Change in Projected Benefit Obligation		
Projected Benefit Obligation at Beginning of Year	$ 34,015,175	$ 36,187,656
Interest Cost	1,775,504	1,607,826
Actuarial Loss (Gain)	2,695,509	(2,045,537)
Benefits Paid	(1,948,643)	(1,734,770)
Projected Benefit Obligation at End of Year	$ 36,537,545	$ 34,015,175

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

	2014	2013
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	$ 21,454,398	$ 18,458,048
Actual Return on Plan Assets	1,738,529	3,670,456
Employer Contribution	1,200,000	1,200,000
Expenses	(160,140)	(139,336)
Benefits Paid	(1,948,643)	(1,734,770)
Fair Value of Plan Assets at End of Year	$ 22,284,144	$ 21,454,398
Funded Status of the Plan:		
Benefit Obligation	$ 36,537,545	$ 34,015,175
Fair Value of Plan Assets	22,284,144	21,454,398
Excess of Benefit Obligation Over Fair Value of Plan Assets	$(14,253,401)	$(12,560,777)
Components of Net Periodic Benefit Costs:		
Interest Cost	$ 1,775,504	$ 1,607,826
Expected Return on Plan Assets	(1,686,406)	(1,455,253)
Amortization of Net Loss	303,848	465,342
Net Periodic Pension Cost	$ 392,946	$ 617,915
Underfunded Plan Information:		
Projected Benefit Obligation at End of Year	$ 36,537,545	$ 34,015,175
Accumulated Benefit Obligation at End of Year	36,537,545	33,122,411
Fair Value of Assets at End of Year	22,284,144	21,454,398

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

	2014	2013
Actuarial Assumptions		
Assumptions Used to Determine Benefit Obligations at September 30:		
Assumed Discount Rate	4.75%	5.25%
Assumed Annual Increase in Salaries	-	-
Benefit Cost for Years Ended September 30:		
Assumed Discount Rate	5.25%	4.50%
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)

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, 2014 and 2013 (the measurement date) by asset category is as follows:

	2014	2013
The Plan Assets are invested as follows:		
Equity Securities	85%	82%
Debt Securities	15%	18%

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:

	2014			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 6,576,586	$ -	$ -	$ 6,576,586
Mutual Funds	-	12,287,243	-	12,287,243
Bond	-	3,360,496	-	3,360,496
	$ 6,576,586	$ 15,647,739	$ -	$ 22,224,325

	2013			
	Level 1	Level 2	Level 3	Total
INVESTMENT				
Equities	$ 5,930,132	$ -	$ -	$ 5,930,132
Mutual Funds	-	11,618,170	-	11,618,170
Bond	-	3,821,486	-	3,821,486
	$ 5,930,132	$ 15,439,656	$ -	$ 21,369,788

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

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

	2014	2013
Total Investments	$ 22,284,144	$ 21,454,398
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(59,819)	(84,610)
Total Investments Measured at Fair Value on a Recurring Basis	$ 22,224,325	$ 21,369,788

The Organization provided funding to the plan of $1,200,000 during fiscal year 2014. 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
2015	$ 1,968,708
2016	2,048,508
2017	2,104,009
2018	2,175,448
2019	2,263,796
2020-2024	12,318,920

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 2014 and 2013, 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 2014 and 2013 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 $1,396,144 and $1,336,716 for the years ended September 30, 2014 and 2013, 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 $7,039,078. The self-insured medical, dental, and short-term disability expense recorded in the Organization's financial statements was $6,077,610 and $6,015,073 in 2014 and 2013, respectively. The Organization has recorded liabilities of $1,035,001 and $1,125,000 for claims incurred but not yet paid as of September 30, 2014 and 2013, 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, 2014 and 2013, the Organization has recorded liabilities of $511,773 and $541,597, 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

		2014		2013	
Description	Security	Face Value	Current Value	Face Value	Current Value
4.31% to 4.5% City of Grand Rapids, Minnesota, Tax-Exempt Series 2003A and B Bonds, Due through 2015	Houses, Computer and Motor Vehicles	$ 58,599	$ 58,599	$ 114,204	$ 114,204
4.92% to 5.70% City of Brainerd, Minnesota, Tax-Exempt Series 2001A, B and C Bonds, Due through 2017	Houses, Computer and Motor Vehicles	115,066	115,066	156,750	156,750
4.91% to 6.41% Minnesota Agricultural and Economic Development Board, Tax-Exempt Series, 1999A Bonds, Due through 2014	Houses, Computer and Motor Vehicles	-	-	21,946	21,946
Note Payable to American National Bank of Minnesota, Interest at 5%, Due through March 21, 2018.	Land and Buildings	136,811	136,811	168,975	168,975
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2020*	Safe House Land and Building	40,439	10,614	40,439	12,635
Thrivent PRI Loan, 2% Interest; Due through July 31, 2014		-	-	266,667	266,667
Lutheran Community Foundation PRI Loan, 2% Interest; Due through October 31, 2014		-	-	33,333	33,333
US Bank Short-Term Bank Note, Interest at 3.19%, Due April 30, 2016	Accounts Receivable and Inventory	93,604	93,604	114,604	114,604
Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Non-Interest Bearing, Forgivable in 2037*	Land and Building	600,000	461,668	600,000	481,668
Capital Leases	Vehicles	369,894	369,894	574,072	574,072
Subtotal for Lutheran Social Service of Minnesota		1,414,413	1,246,256	2,090,990	1,944,854

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

		2014		2013	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2020*	Land and Building	521,674	139,113	521,674	165,197
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	390,500	252,103	384,500	240,098
Subtotal for Rezek House LLC		912,174	391,216	906,174	405,295
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable May 16, 2033 *	Land and Buildings	1,720,580	1,083,507	1,720,580	1,141,423
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	119,420	68,104	119,420	66,120
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	130,000	74,957	130,000	72,774
Note Payable to Minnesota Community Development Authority, Interest at 1%, Principal and Interest due May 16, 2033	Land and Buildings	334,000	224,395	331,000	217,859
Subtotal for LSS Townhomes LLC		2,304,000	1,450,963	2,301,000	1,498,176
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 19, 2034	Land and Buildings	126,000	67,271	126,000	65,154
Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1%, Principal and Interest due May 19, 2034	Land and Buildings	294,634	180,304	291,644	174,730
Note Payable to City of Minneapolis, Interest at 1%, Principal and Interest due May 19, 2034	Land and Buildings	289,194	176,746	283,094	171,081

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

		2014		2013	
Description	Security	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	320,340	600,000	310,256
Note Payable to City of Minneapolis, Non-Interest Bearing, Forgivable May 19, 2034 *	Land and Buildings	100,000	65,278	100,000	68,612
Total for LSS Supportive Housing LLC		1,409,828	809,939	1,400,738	789,833
Note Payable to Wells Fargo, N.A.; Interest at 1.9% plus LIBOR Rate, Due through December 31, 2017	Center For Changing Lives Building and improvements	2,486,235	2,486,235	2,651,664	2,651,664
Note Payable to New Markets Investment XXVIII, LLC, Interest at 5.81%, Principal payments from 2014 through January 24, 2038 **	Changing Lives Building and improvements	-	-	13,717,365	11,051,142
Total for LSS Center for Changing Lives		2,486,235	2,486,235	16,369,029	13,702,806
Note Payable to Hennepin County AHTF, Interest at 5.50%, Principal and Interest due May 31, 2037	Park Avenue Apartments	731,842	731,842	694,161	694,161
Note Payable to City of Minneapolis AHIF, Interest at 1%, Principal and Interest due November 15, 2037	Park Avenue Apartments	427,504	427,504	426,963	426,963
Total for Park Avenue Apartments		1,159,346	1,159,346	1,121,124	1,121,124
Note Payable to Sunrise Bank N.A, Interest at 3.125%, Due March 20, 2045	Rolling Hills Apartments	8,895,926	8,895,926	2,721,329	2,721,329
Note Payable to Lake Energy Investment, Inc, Interest at 7%, Due June 20, 2034	Rolling Hills Apartments	452,675	452,675	415,436	415,436
Note Payable to St. Paul City HRA (CDBG), Interest at 3%, Due December 1, 2045	Rolling Hills Apartments	49,756	49,756	48,940	48,940

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

		2014		2013	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note payable to MHFA, 0% Interest Bearing, Due June 20, 2043	Rolling Hills Apartments	300,000	83,686	-	-
Note payable to Family Housing Fund, 0% Interest Bearing, Due June 20, 2043	Rolling Hills Apartments	200,000	55,793	-	-
Note Payable to Housing & Redevelopment Authority of St. Paul (Home Loan), Interest at 1%, Due June 20, 2045	Rolling Hills Apartments	905,675	230,740	843,592	155,107
Total for Rolling Hills Apartments		10,804,032	9,768,576	4,029,297	3,340,812
Total Long-Term Debt and Conditional Grants		$ 20,490,028	$ 17,312,531	$ 28,218,352	$ 22,802,900
Less: Conditional Grants		2,982,693	1,760,180	2,982,693	1,869,535
Total Debt		17,507,335	15,552,351	25,235,659	20,933,365
Less: Current Maturities of Long-Term Debt		571,667	571,667	879,705	879,705
Maturities and Conditional Grants		$ 16,935,668	$ 14,980,684	$ 24,355,954	$ 20,053,660

* Conditional Grants

** There was a loan receivable in the amount of $10,471,529 with an interest rate of 7.4% associated with the Center for Changing Lives project. This was acquired by the Organization when NEF exercised its call option in July 2014.

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
2015	$ 571,667
2016	411,691
2017	359,451
2018	278,141
2019	10,535,182
Thereafter	3,396,219
Total	$ 15,552,351

Land and buildings with a net book value of $32,789,159 and $28,798,986 are pledged as collateral at September 30, 2014 and 2013, respectively, primarily on MHFA mortgage notes.

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

At September 30, 2014, 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. The Organization received a waiver dated January 6, 2015. The balance is scheduled to be paid in full by December 31, 2016.

Line 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 (3.18% at September 30, 2014) and mature on April 25, 2015. At September 30, 2014 and 2013, the amount outstanding was $-0-. In addition, there is a short-term loan of $210,000 that will be renewed on April 25, 2015. The interest rate is 30 day LIBOR + 290 basis points, and $1,750 in principal is paid each month. The balance outstanding at end of the year ended September 30, 2014 and 2013 was $93,604 and $114,603, respectively.

On July 10, 2012, the Organization entered into a line of credit with Sunrise Bank for $3,000,000. This line bears interest on outstanding borrowings at the bank's reference rate (5.00% at September 30, 2014) and matures on April 30, 2015. At September 30, 2014 and 2013, the amount outstanding was $2,050,667 and $2,051,885, respectively.

Center for Changing Lives

The Organization established a construction loan of up to $6.4 million for the Center for Changing Lives Project. The balance outstanding at end of the year ended September 30, 2014 and 2013 was $2,489,235 and $2,651,663, respectively. For the first four years, quarterly payments of interest were required at a rate equal to LIBOR plus 1.9%.

The schedule of principal amortization during this four year period provided that the outstanding principal at the end of each year may not exceed a specified maximum amount of the 15 year amortization of the 2011 balance as of September 30, 2014. This maximum threshold is effective until December 31, 2017, at which time the balance is due in full.

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

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.

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

The balance outstanding on the loan as of September 30, 2014 was $8,895,926 with interest accruing at 3.125% during the construction phase. The loan will convert 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, 2014, 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
2015	$ 2,463,364
2016	1,936,135
2017	1,471,117
2018	1,022,213
2019	604,910
Thereafter	712,739
Total	$ 8,210,478

Rental expense for all operating leases was $2,709,181 and $3,420,244 for the years ended September 30, 2014 and 2013, 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 and $1,320,896 at September 30, 2014 and 2013, respectively. Accumulated depreciation was $925,837 and $765,203 at September 30, 2014 and 2013, respectively.

NOTE 9 LEASES (CONTINUED)

Future minimum lease payments are as follows:

Year Ending September 30,	Amount
2015	$ 170,108
2016	125,293
2017	79,281
2018	26,114
Total Lease Payments	400,796
Less Interest Expense	(30,902)
Total Minimum Lease Payments	$ 369,894

NOTE 10 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at September 30, 2014 and 2013:

	2014	2013
Split Interest Deferred Gifts / Trusts	$ 1,653,250	$ 1,541,302
Donations and Forgivable Loan Interest for Property	18,548,236	18,726,226
Cash Restricted by Donors for Specific Program Use	5,076,175	3,444,284
Total	$ 25,277,661	$ 23,711,812

Permanently Restricted

Permanently restricted net assets with investment return restricted for the following purposes at September 30, 2014 and 2013 are as follows:

	2014	2013
Perpetual Trust for VASA Lutheran Home	$ 2,703,958	$ 2,645,229
Endowment Investments	1,206,233	1,084,454
Camp Knutson	209,933	209,200
Other	44,767	44,767
Total	$ 4,164,891	$ 3,983,650

Net Assets Released from Restrictions

The net assets released from restrictions as of September 30, 2014 and 2013 consist of the following:

	2014	2013
Time and Purpose Releases	$ 3,347,025	$ 3,084,896
Building Releases	807,659	700,574
Total	$ 4,154,684	$ 3,785,470

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.

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, 2014 and 2013.

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.

NOTE 11 ENDOWMENTS (CONTINUED)

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

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2013	$ -	$ 152,749	$ 1,329,825	$ 1,482,574
Contributions	-	-	121,779	121,779
Investment Return:				
Investment Income	-	54,677	-	54,677
Investment Expenses	-	(13,955)	-	(13,955)
Realized Gains (Losses)	-	235,756	-	235,756
Unrealized Gains (Losses)	-	(144,055)	-	(144,055)
Total Investment Return	-	132,423	-	132,423
Endowment Fund Balance, September 30, 2014	$ -	$ 285,172	$ 1,451,604	$ 1,736,776

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2012	$ -	$ 8,079	$ 1,329,610	$ 1,337,689
Contributions	-	-	215	215
Investment Return:				
Investment Income	-	42,576	-	42,576
Investment Expenses	-	(13,027)	-	(13,027)
Realized Gains (Losses)	-	9,084	-	9,084
Unrealized Gains (Losses)	-	106,037	-	106,037
Total Investment Return	-	144,670	-	144,670
Endowment Fund Balance, September 30, 2013	$ -	$ 152,749	$ 1,329,825	$ 1,482,574

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.

NOTE 12 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, 2014 and 2013, the Organization was the guardianship or conservator of estates totaling $33,835,232 and $30,660,039, 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, 2014 and 2013.

NOTE 13 AGREEMENT WITH CHILDREN'S HOME SOCIETY OF MINNESOTA

Effective July 1, 2012, the Organization entered into a management services agreement with Children's Home Society of Minnesota (CHS). The agreement was written to continue through June 30, 2018, automatically renewing for additional one-year terms unless terminated pursuant to terms of the agreement. Under this agreement, the President/CEO of the Organization will serve concurrently as the chief executive officer of CHS and report to the Board of Directors of CHS. Additionally, the Organization provides management and administrative services for CHS in exchange for a management fee which is calculated based on the operating revenues of CHS. At September 30, 2014 and 2013, the Organization had a receivable from CHS totaling $1,915,571 and $2,315,275, respectively, for management fees and other expenditures paid on behalf of CHS.

Principal repayment from CHS to the Organization shall be made to the extent funds are available in the timing and amount determined by the Organization. The loan is secured by a mortgage on real property owned by CHS. In conjunction with this management agreement, the Organization and CHS also signed a lease whereby the Organization will lease space from CHS from July 1, 2012, through June 30, 2018. The lease provides for annual rental payments to CHS of approximately $240,000.

Effective October 1, 2014, the LSS and CHS board of directors approved an affiliation agreement whereby LSS will have control of up 70% of CHS's board of directors.