LUTHERAN SOCIAL SERVICE OF MINNESOTA
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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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 statements of financial position of Lutheran Social Service of Minnesota and Affiliates (the Organization) as of September 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization at September 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 31, 2012

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2011 AND 2010

	2011			
ASSETS	Lutheran Social Service	LSS Park Avenue Apartments LP	LSS Park Avenue Apartments LP Eliminations	Lutheran Social Service Consolidated
CURRENT ASSETS				
Cash and Cash Equivalents	$ 9,779,850	$ 180,651	$ -	$ 9,960,501
Pledges Receivable	276,605	-	-	276,605
Accounts Receivable	8,914,001	283	(18,804)	8,895,480
Other Current Assets	388,205	-	-	388,205
Total Current Assets	19,358,661	180,934	(18,804)	19,520,791
Net Land, Buildings and Equipment	31,660,168	7,632,666	(152,000)	39,140,834
Investments	2,522,203	-	(86,000)	2,436,203
Intangible Assets: Goodwill	1,079,207	-	-	1,079,207
Long-Term Pledges Receivable	166,857	-	-	166,857
Other Assets Limited as to Use	46,875	80,973	-	127,848
Other Assets	1,134,757	313,330	-	1,448,087
Loan Receivable	11,100,529	-	(629,000)	10,471,529
Beneficial Interest in Perpetual Trust	2,266,716	-	-	2,266,716
Total Assets	$ 69,335,973	$ 8,207,903	$ (885,804)	$ 76,658,072
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable, Accrued Liabilities and Deferred Income	$ 4,028,426	$ 95,004	$ (18,804)	$ 4,104,626
Conditional Grants, Current	109,354	-	-	109,354
Accrued Payroll, Benefits, Taxes, and Withholdings	7,107,603	-	-	7,107,603
Current Portion of Long-Term Debt	943,102	-	-	943,102
Total Current Liabilities	12,188,485	95,004	(18,804)	12,264,685
Accrued Pension Liability	16,736,647	-	-	16,736,647
Obligation under Trust Agreement	846,989	-	-	846,989
Conditional Grants, Long Term	1,978,891	-	-	1,978,891
Asset Retirement Obligation	3,642	-	-	3,642
Long-Term Debt, Less Current Portion	18,191,794	1,660,046	(629,000)	19,222,840
Total Liabilities	49,946,448	1,755,050	(647,804)	51,053,694
NET ASSETS				
Unrestricted	(1,983,407)	6,452,853	(238,000)	4,231,446
Temporarily Restricted	17,776,255	-	-	17,776,255
Permanently Restricted	3,596,677	-	-	3,596,677
Total Net Assets	19,389,525	6,452,853	(238,000)	25,604,378
Total Liabilities and Net Assets	$ 69,335,973	$ 8,207,903	$ (885,804)	$ 76,658,072

2010			
Lutheran Social Service	LSS Park Avenue Apartments LP	LSS Park Avenue Apartments LP Eliminations	Lutheran Social Service Consolidated
$ 9,279,296	$ 198,273	$ -	$ 9,477,569
528,621	-	-	528,621
8,244,133	8,073	(94,174)	8,158,032
484,967	6,990	-	491,957
18,537,017	213,336	(94,174)	18,656,179
32,471,736	7,860,462	(152,000)	40,180,198
2,758,493	-	(86,000)	2,672,493
1,079,207	-	-	1,079,207
124,446	-	-	124,446
54,876	80,973	-	135,849
1,208,051	282,750	-	1,490,801
11,100,529	-	(629,000)	10,471,529
2,435,456	-	-	2,435,456
$ 69,769,811	$ 8,437,521	$ (961,174)	$ 77,246,158
$ 4,463,427	$ 126,199	$ (94,174)	$ 4,495,452
109,354	-	-	109,354
7,029,867	-	-	7,029,867
1,115,663	-	-	1,115,663
12,718,311	126,199	(94,174)	12,750,336
15,967,578	-	-	15,967,578
898,959	-	-	898,959
2,088,245	-	-	2,088,245
3,753	-	-	3,753
18,876,052	1,623,956	(629,000)	19,871,008
50,552,898	1,750,155	(723,174)	51,579,879
(1,994,466)	6,687,366	(238,000)	4,454,900
17,446,127	-	-	17,446,127
3,765,252	-	-	3,765,252
19,216,913	6,687,366	(238,000)	25,666,279
$ 69,769,811	$ 8,437,521	$ (961,174)	$ 77,246,158

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Revenue:				
Government Fees and Grants	$ 77,309,541	$ 648,771	$ -	$ 77,958,312
Client Fees and Reimbursed Services	11,488,129	-	-	11,488,129
Investment Income	7,153	-	-	7,153
Other	563,227	2,495	-	565,722
Total Revenue	89,368,050	651,266	-	90,019,316
Public Support:				
Contributions	1,915,391	1,205,745	165	3,121,301
Grants (Nongovernmental)	1,315,700	1,877,236	-	3,192,936
Church	942,719	79,705	-	1,022,424
United Way	1,271,476	-	-	1,271,476
Total Public Support	5,445,286	3,162,686	165	8,608,137
Net Assets Released from Restrictions	3,485,234	(3,485,234)	-	-
Total Revenue and Public Support	98,298,570	328,718	165	98,627,453
EXPENSES				
Program Service:				
Services for Children / Youth / Family / CFCL	26,644,933	-	-	26,644,933
Services for Seniors	12,941,772	-	-	12,941,772
Services for People with Disabilities	46,672,008	-	-	46,672,008
Total Program Service Expenses	86,258,713	-	-	86,258,713
Support Service:				
Management and General	8,992,351	-	-	8,992,351
Fund Raising	1,803,695	-	-	1,803,695
Total Support Service Expenses	10,796,046	-	-	10,796,046
Total Expenses	97,054,759	-	-	97,054,759
CHANGE IN NET ASSETS - OPERATIONS	1,243,811	328,718	165	1,572,694
NON-OPERATING				
Pass-Through Revenues	5,221,576	-	-	5,221,576
Pass-Through Expenditures	(5,221,576)	-	-	(5,221,576)
	-	-	-	-
Additional Pension Increase:				
Current Period	(1,195,279)	-	-	(1,195,279)
Change in Value of Split Interest Agreements	13,018	-	-	13,018
Change in Value of Trusts	-	-	(168,740)	(168,740)
Change in Value of Investments	(50,491)	1,410	-	(49,081)
Noncontrolling Interest in LSS Park Avenue Apartments LP	(234,513)	-	-	(234,513)
Change in Net Assets Non-Operating	(1,467,265)	1,410	(168,740)	(1,634,595)
CHANGE IN NET ASSETS	(223,454)	330,128	(168,575)	(61,901)
Net Assets - Beginning of Year	4,454,900	17,446,127	3,765,252	25,666,279
NET ASSETS - END OF YEAR	$ 4,231,446	$ 17,776,255	$ 3,596,677	$ 25,604,378

See accompanying Notes to Consolidated Financial Statements.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 73,803,807	$ 782,362	$ -	$ 74,586,169
11,066,338	3,675	-	11,070,013
21,824	21,940	-	43,764
474,588	7,995	-	482,583
85,366,557	815,972	-	86,182,529
1,674,374	962,149	664	2,637,187
426,232	1,852,792	-	2,279,024
947,376	43,779	-	991,155
1,134,864	-	-	1,134,864
4,182,846	2,858,720	664	7,042,230
3,985,273	(3,985,273)	-	-
93,534,676	(310,581)	664	93,224,759
26,436,516	-	-	26,436,516
13,411,469	-	-	13,411,469
43,517,912	-	-	43,517,912
83,365,897	-	-	83,365,897
8,471,052	-	-	8,471,052
1,739,210	-	-	1,739,210
10,210,262	-	-	10,210,262
93,576,159	-	-	93,576,159
(41,483)	(310,581)	664	(351,400)
5,181,326	-	-	5,181,326
(5,181,326)	-	-	(5,181,326)
-	-	-	-
(1,470,746)	-	-	(1,470,746)
13,560	44,825	-	58,385
-	-	(56,162)	(56,162)
108,090	98,873	71,602	278,565
380,867	-	-	380,867
(968,229)	143,698	15,440	(809,091)
(1,009,712)	(166,883)	16,104	(1,160,491)
5,464,612	17,613,010	3,749,148	26,826,770
$ 4,454,900	$ 17,446,127	$ 3,765,252	$ 25,666,279

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011			
		Support Services		
	Program Services	Management and General	Fund Raising	Total
Salaries	$ 38,935,268	$ 4,910,765	$ 931,285	$ 44,777,318
Employee Benefits and Payroll Taxes	10,691,129	1,291,025	247,497	12,229,651
Total Personnel Costs	49,626,397	6,201,790	1,178,782	57,006,969
Professional Fees and Contract Services	1,985,622	853,904	77,114	2,916,640
Supplies	805,306	28,684	66,823	900,813
Communications	1,308,972	289,747	246,439	1,845,158
Occupancy	4,937,560	590,972	103,689	5,632,221
Equipment	616,299	160,987	35,250	812,536
Transportation	2,390,652	75,126	29,640	2,495,418
Staff Development	706,101	516,695	46,616	1,269,412
Client and Volunteer Expense	21,695,935	43,357	6,245	21,745,537
Other	284,600	165,048	13,097	462,745
Total Expense Before Depreciation	84,357,444	8,926,310	1,803,695	95,087,449
Depreciation	1,901,269	66,041	-	1,967,310
Total Expense	$ 86,258,713	$ 8,992,351	$ 1,803,695	$ 97,054,759

See accompanying Notes to Consolidated Financial Statements.

2010			
	Support Services		
Program Services	Management and General	Fund Raising	Total
$ 37,954,879	$ 4,813,987	$ 911,936	$ 43,680,802
10,768,972	1,339,568	237,501	12,346,041
48,723,851	6,153,555	1,149,437	56,026,843
1,614,656	657,191	74,698	2,346,545
739,757	19,559	5,803	765,119
1,312,680	286,369	292,434	1,891,483
4,522,192	541,803	93,707	5,157,702
530,900	153,735	31,781	716,416
2,233,505	90,717	29,637	2,353,859
595,878	321,376	41,034	958,288
20,579,620	34,682	6,676	20,620,978
502,624	120,108	14,003	636,735
81,355,663	8,379,095	1,739,210	91,473,968
2,010,234	91,957	-	2,102,191
$ 83,365,897	$ 8,471,052	$ 1,739,210	$ 93,576,159

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (61,901)	$ (1,160,491)
Adjustments to Reconcile Change in Net Assets to Cash and Cash Equivalents Provided by Operating Activities:		
Change in Value of Split Interest Agreements	(9,742)	(119,754)
Change in Value of Perpetual Trust	4,533	(179,648)
Asset Retirement Obligation	(111)	245
Adjustment for Pension Liability	769,069	1,479,644
Amortization of Deferred Gain from Tax Credit Financing	(463,691)	(463,691)
Noncash Donations of Low Interest Loans	(109,354)	(193,586)
Increase in Accrued Interest	14,145	14,145
Bad Debt Expense and Change in Allowance	218,838	(160,212)
Realized Loss and Unrealized (Gain) Loss on Investments	38,042	(147,129)
Depreciation	2,195,106	2,335,785
Amortization of Capital Lease Assets	159,704	228,101
Amortization - Other	81,285	78,162
(Gain) Loss on Sale of Land, Building and Equipment	(43,310)	54,806
(Increase) Decrease in Receivables	(746,681)	1,390,431
Decrease (Increase) in Other Assets	60,331	(323,258)
(Decrease) Increase in Current Liabilities	(313,090)	1,246,505
Net Cash Provided by Operating Activities	1,793,173	4,080,055
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(37,723)	(226,478)
Acquisition of Intangible Assets - ESI Purchase	-	(350,000)
Proceeds from Sale of Investments	270,000	116,039
Proceeds from Sale of Property and Equipment	126,878	497,253
Capital Expenditures	(1,080,143)	(931,798)
Net Cash Used by Investing Activities	(720,988)	(894,984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-Term Debt Payments	(753,461)	(1,069,003)
Distribution from the Perpetual Trust	164,208	164,208
Net Cash Used by Financing Activities	(589,253)	(904,795)
NET INCREASE IN CASH AND CASH EQUIVALENTS	482,932	2,280,276
Cash and Cash Equivalents - Beginning of Year	9,477,569	7,197,293
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,960,501	$ 9,477,569
SUPPLEMENTAL INFORMATION		
Cash Paid for Interest	$ 293,020	$ 361,942
NONCASH TRANSACTIONS		
Capital Assets Purchased with Capital Leases	$ 318,871	$ 1,002,025

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 Lending LLC
- CFCL LLC
- LSS Development LLC
- LSS Park Avenue Apartments LP

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

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

The Organization has 350 program units in over 300 locations in the State of Minnesota that provided services to more than 100,000 persons in 2011.

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.

Investments

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

Pledges Receivable

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional pledges are not included as support until such time as the conditions are substantially met.

Account Receivables

The Organization provides an allowance for uncollectible accounts based on the reserve method using management's judgment and the Organization's approved policy. Payment for services is required within 30 days of receipt of invoice. Accounts past due for more than 30 days are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the Organization's policy as well as historical experience of the Organization. The Organization policy is based on determined percentages of outstanding receivables by age of the balance. When all collection efforts have been exhausted, the receivable is written off against the related reserve. At September 30, 2011 and 2010, the allowance for uncollectible accounts was $287,675 and $281,766, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Land, Buildings and Equipment

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

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

Long-Lived Assets

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

Deferred Financing Costs

Financing costs incurred in obtaining financing are being amortized by the straight-line method over the applicable terms of the bonds. Amortization expense was $17,878 for the years ended September 30, 2011 and 2010.

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 $519,207.

During fiscal year 2010, the Organization purchased substantially all the assets, excluding real estate, of Empowerment Services Inc. (ESI), a Minnesota corporation. With the purchase, the Organization assumed the ongoing operation of ten facilities for people with disabilities and other community services located in Rice County, Minnesota. The purchase price totaled $450,000, which included $100,000 of fixed assets, equipment including eleven motor vehicles and goodwill of $350,000. All licenses and leases on rental properties were assumed. The Organization hired substantially all ESI employees with this purchase.

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 $976,684 and $948,877 at September 30, 2011 and 2010, respectively.

The Organization became the trustee for the Pittman Trust in 2007. The trust is held for 20 years. The trust provides that the lower of 8% of trust assets or the total interest and dividends earned by the trust will be distributed to the remainders. At the end of 20 years, the trust will pay out to the Organization. The value of the trust, as of 2011, is booked at present value of $385,444 as an asset of $1,232,433 and an offsetting liability of $846,989 for the value of the future obligations under the trust. As of 2010, the value of the trust was booked at present value of $377,065 as an asset of $1,276,024 and an offsetting liability of $898,959 for the values of the future obligations under the trust.

Government Contracts

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

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

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

Contributions

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conditional Grants

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

Advertising Expenses

Advertising expenditures are expensed as incurred. Advertising expense for the years ended September 30, 2011 and 2010 totaled $204,515 and $194,944, 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 Lending LLC, and CFCL 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 2014, the Organization has the option to acquire the property at a bargain purchase price from their financing partner.

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 2008 to 2010 are open to examination by federal and state authorities.

Asset Retirement Obligation

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or settlement are conditional on a future event that may or may not be within the control of the entity. The Organization estimated the cost of any potential obligation to remove asbestos. The Organization used a future value rate assumption of 3% and a present value risk-free rate of 7% to determine the potential liability. The Organization has recorded a liability of $3,642 and $3,753 at September 30, 2011 and 2010, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2012, the date the consolidated financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2011 and 2010 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, 2011 and 2010. The allowance for uncollectible accounts was $51,791 and $77,735 for 2011 and 2010, respectively.

	2011	2010
Unconditional Pledges Receivable	$ 505,892	$ 737,846
Unamortized Discount	(10,639)	(7,044)
Allowance for Uncollectible Accounts	(51,791)	(77,735)
Total	$ 443,462	$ 653,067
Amounts Due in:		
Less Then One Year	$ 328,396	$ 606,356
One to Five Years	177,496	131,490
Total	$ 505,892	$ 737,846

Pledges receivable from board members and employees totaled $97,701 and $161,807 at September 30, 2011 and 2010, respectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

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

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

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

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

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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

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

	2011			
	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Equities	$ 1,259,240	$ -	$ -	$ 1,259,240
Mutual Funds	725,332	-	-	725,332
Bonds	-	400,759	-	400,759
	$ 1,984,572	$ 400,759	$ -	$ 2,385,331
BENEFICIAL INTEREST IN PERPETUAL TRUST	$ -	$ -	$ 2,266,716	$ 2,266,716

	2010			
	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Equities	$ 1,336,500	$ -	$ -	$ 1,336,500
Mutual Funds	755,159	-	-	755,159
Bonds	-	387,354	-	387,354
	$ 2,091,659	$ 387,354	$ -	$ 2,479,013
BENEFICIAL INTEREST IN PERPETUAL TRUST	$ -	$ -	$ 2,435,456	$ 2,435,456

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:

	2011	2010
Total Investments	$ 2,436,203	$ 2,672,493
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(50,872)	(193,480)
Total Investments Measured at Fair Value on a Recurring Basis	$ 2,385,331	$ 2,479,013

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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, 2011 and 2010:

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2010	$ 2,435,456
Distribution	(164,208)
Change in Value of Undistributed Trust Assets	(4,532)
Balance as of September 30, 2011	$ 2,266,716
Balance as of October 1, 2009	$ 2,420,016
Distribution	(164,208)
Change in Value of Undistributed Trust Assets	179,648
Balance as of September 30, 2010	$ 2,435,456

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 $4.9 million and $5.5 million more than the carrying value at September 30, 2011 and 2010, respectively.

NOTE 4 LAND, BUILDINGS, AND EQUIPMENT

Cost and related accumulated depreciation at September 30, 2011 and 2010 were:

	2011		2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 3,536,707	$ -	$ 3,561,707	$ -
Land Improvements	920,844	516,655	903,986	472,270
Construction in Process	10,324	-	24,004	-
Buildings and Building Improvements	44,415,530	11,611,980	44,264,099	10,162,407
Equipment	6,891,548	5,460,557	6,403,767	5,178,142
Vehicles	159,538	137,556	159,538	98,008
Capital Leases - Vehicles	1,320,896	387,805	1,002,025	228,101
	$ 57,255,387	$ 18,114,553	$ 56,319,126	$ 16,138,928
Net Land, Buildings and Equipment	$ 39,140,834		$ 40,180,198	

NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Defined Benefit Pension Plan

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

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

The measurement dates used for the Plan disclosures are as of September 30, 2011 and 2010, and for the years then ended.

NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

The changes in the projected benefit obligation are as follows:

	2011	2010
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	$ 15,788,424	$ 14,767,926
Actual Return on Plan Assets	(346,516)	1,467,126
Employer Contribution	1,200,000	1,000,000
Expenses	(126,177)	(112,723)
Benefits Paid	(1,225,237)	(1,333,905)
Fair Value of Plan Assets at End of Year	$ 15,290,494	$ 15,788,424
Funded Status of the Plan:		
Benefit Obligation	$ 32,027,141	$ 31,756,002
Fair Value of Plan Assets	15,290,494	15,788,424
Excess of Benefit Obligation Over Fair Value of Plan Assets	$ (16,736,647)	$ (15,967,578)
Components of Net Periodic Benefit Costs:		
Service Cost	$ -	$ -
Interest Cost	1,678,646	1,800,835
Expected Return on Plan Assets	(1,262,064)	(1,168,078)
Amortization of Net Loss	357,208	376,141
Net Periodic Pension Cost	$ 773,790	$ 1,008,898
Underfunded Plan Information:		
Projected Benefit Obligation at End of Year	$ 32,027,141	$ 31,756,002
Accumulated Benefit Obligation at End of Year	32,027,141	31,756,002
Fair Value of Assets at End of Year	15,290,494	15,788,424

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

	2011	2010
Actuarial Assumptions		
Assumptions Used to Determine Benefit Obligations at September 30:		
Assumed Discount Rate	5.25%	5.75%
Assumed Annual Increase in Salaries	-	-
Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended September 30:		
Assumed Discount Rate	5.75%	6.25%
Expected Long-Term Return on Plan Assets	8.00%	8.00%
Assumed Annual Increase in Salaries	-	-

NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

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

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

The percentage of the fair value of total plan assets held as of September 30, 2011 (the measurement date) by asset category is as follows:

	2011	2010
The Plan Assets are invested as follows:		
Equity Securities	72%	73%
Debt Securities	28%	27%

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:

	2011			
	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Equities	$ 3,928,426	$ -	$ -	$ 3,928,426
Mutual Funds	-	7,119,113	-	7,119,113
Bonds	-	4,201,461	-	4,201,461
	$ 3,928,426	$ 11,320,574	$ -	$15,249,000

	2010			
	Level 1	Level 2	Level 3	Total
INVESTMENTS				
Equities	$ 4,185,292	$ -	$ -	$ 4,185,292
Mutual Funds	-	7,227,477	-	7,227,477
Bonds	-	4,319,568	-	4,319,568
	$ 4,185,292	$ 11,547,045	$ -	$15,732,337

NOTE 5 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:

	2011	2010
Total Investments	$ 15,290,494	$ 15,788,424
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(41,494)	(56,087)
Total Investments Measured at Fair Value on a Recurring Basis	$ 15,249,000	$ 15,732,337

The Organization provided funding to the plan of $1,200,000 during fiscal year 2011. 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
2012	$ 1,548,291
2013	1,771,032
2014	1,862,594
2015	1,981,158
2016	2,122,196
2017-2021	12,504,159

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 2011 and 2010, 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 2011 and 2010 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 was $995,546 and $848,573 for the years ended September 30, 2011 and 2010, respectively.

NOTE 6 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Anderson Trust, a perpetual trust in the amount of $2,266,716 and $2,435,456 at September 30, 2011 and 2010, respectively, is included in permanently restricted net assets. The Organization has the irrevocable right to receive the income on these trust assets, subject to certain limitations, but will never receive the assets held in trust. The unrealized gains and the undistributed earnings on the trusts are reported as additions to the permanently restricted net asset balance. The distributed income from these trusts is to be used for the maintenance and operation of a facility for needy children. This restriction was expanded by the Minnesota District Court of Hennepin County in 2009 to include adults with disabilities and enlarged the area to within a 50-mile radius from the present location. Income distributions from the trust were $164,208 for the years ended September 30, 2011 and 2010.

NOTE 7 SELF-INSURED BENEFIT LIABILITIES

In 1992, a benefit fund was established for the Organization's self-funded employee medical, dental, and short-term disability plans. Under the plans, which are administered by the trust, contributions are made by the Organization and employees to pay claims, administrative costs, and commercial insurance premiums. The commercial insurance premiums (stop-loss insurance) cover individual medical claims in excess of $200,000 and aggregate claims over 120% of annual expected claims or $6,344,400. The self-insured medical, dental, and short-term disability expense recorded in the Organization's financial statements was $5,587,196 and $5,808,704 in 2011 and 2010, respectively. The Organization has recorded liabilities of $1,431,635 and $1,318,427 for claims incurred but not yet paid as of September 30, 2011 and 2010, 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, 2011 and 2010, the Organization has recorded liabilities of $399,810 and $412,540, 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

		2011		2010	
Description	Security	Face Value	Current Value	Face Value	Current Value
4.31% to 4.50% City of Grand Rapids, Minnesota, Tax-Exempt Series 2003A and B Bonds, Due through 2015	Houses, Computers and Motor Vehicles	$ 503,660	$ 503,660	$ 686,145	$ 686,145
4.92% to 5.70% City of Brainerd, Minnesota, Tax-Exempt Series 2001A, B and C Bonds, Due through 2016	Houses, Computers and Motor Vehicles	284,287	284,287	417,292	417,292
4.91% to 6.41% Minnesota Agricultural and Economic Development Board, Tax-Exempt Series 1999A Bonds, Due through 2014	Houses, Computers and Motor Vehicles	104,061	104,061	141,922	141,922
Note Payable to American National Bank of Minnesota, Interest at 6.75%, Due March 1, 2014	Land and Buildings	223,100	223,100	249,601	249,601
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable in 2020 *	Safe House Land and Building	40,439	16,681	40,439	18,702
Thrivent PRI Loan, 2% Interest; $2 Million in 3 Installments of $666,667. Due July 31, 2014		666,667	666,667	666,667	666,667
Lutheran Community Foundation PRI Loan, 2% Interest; $250,000 in 3 Installments of $83,333. Due July 31, 2014		83,333	83,333	83,333	83,333
US Bank Short Term Bank Note, Interest at 3.15%, Due March 31, 2012	Accounts Receivable and Inventory	158,463	158,463	177,713	177,713
Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Non-Interest Bearing, Forgivable in 2037 *	Land and Buildings	600,000	521,668	600,000	541,668
Capital Leases	Vehicles	942,366	942,366	783,159	783,159
Subtotal for Lutheran Social Service of Minnesota		3,606,376	3,504,285	3,846,271	3,766,202

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

		2011		2010	
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 Buildings	521,674	217,364	521,674	243,448
Note Payable to City of St. Paul Housing and Redevelopment Authority, Interest at 2.00%, Principal and Interest Due December 31, 2026	Land and Buildings	366,500	217,776	360,500	207,406
Subtotal for Rezek House LLC		888,174	435,141	882,174	450,854
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Forgivable May 16, 2033 *	Land and Buildings	1,720,580	1,257,254	1,720,580	1,315,170
Note Payable to Minnesota Housing Finance Agency, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	119,420	62,324	119,420	60,509
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 16, 2033	Land and Buildings	130,000	68,596	130,000	66,598
Note Payable to Minnesota Community Development Authority, Interest at 1.00%, Principal and Interest Due May 16, 2033	Land and Buildings	325,000	205,354	322,000	199,372
Subtotal for LSS Townhomes LLC		2,295,000	1,593,528	2,292,000	1,641,649
Note Payable to Family Housing Fund, Non-Interest Bearing, Due May 19, 2034	Land and Buildings	126,000	61,117	126,000	59,193
Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1.00%, Principal and Interest Due May 19, 2034	Land and Buildings	279,175	163,901	276,575	158,739
Note Payable to City of Minneapolis, Interest at 1.00%, Principal and Interest Due May 19, 2034	Land and Buildings	273,269	160,480	270,724	155,429

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

		2011		2010	
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	291,032	600,000	281,871
Note Payable to City of Minneapolis, Non-Interest Bearing, Forgivable May 19, 2034 *	Land and Buildings	100,000	75,278	100,000	78,463
Total for LSS Supportive Housing LLC		1,378,444	751,807	1,373,299	733,695
Note Payable to Wells Fargo, N.A.; 1% of Outstanding Balance Due on First Day of Permanent Period (Conversion Fee)	Center For Changing Lives Building and improvements	2,959,855	2,959,855	3,154,551	3,154,551
Note Payable to New Markets Investment XXVIII, LLC, Interest of 5.81% it to be Paid Beginning of Each Calendar Quarter Starting March 20, 2008 Until January 20, 2012 **	Center For Changing Lives Building and improvements	13,717,365	11,978,524	13,717,365	12,442,215
Total for LSS Center for Changing Lives		16,677,220	14,938,379	16,871,916	15,596,766
Note Payable to Hennepin County AHTF, Interest at 5.50%, Principal and Interest Due January 24, 2038	Park Avenue Apartments	615,542	615,542	583,452	583,452
Note Payable to City of Minneapolis AHIF, Interest at 1%, Principal and Interest Due December 31, 2037	Park Avenue Apartments	415,504	415,504	411,504	411,504
Total for Park Avenue Apartments		1,031,046	1,031,046	994,956	994,956
Total Long-Term Debt and Conditional Grants		25,876,261	22,254,187	26,260,616	23,184,122

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

		2011		2010	
Description	Security	Face Value	Current Value	Face Value	Current Value
Less: Conditional Grants		2,982,693	2,088,244	2,982,693	2,197,451
Total Debt		22,893,568	20,165,942	23,277,923	20,986,671
Less: Current Maturities of Long-Term Debt		943,102	943,102	1,115,663	1,115,663
Long-Term Debt, Excluding Current Maturities and Conditional Grants		$ 21,950,466	$ 19,222,840	$ 22,162,260	$ 19,871,008

* Conditional Grants

** There is 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. Interest payments received from this loan offset interest expense paid on the Note Payable, in the amount of $11,978,524, to New Markets XXVIII LLC.

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
2012		$ 800,604
2013		759,246
2014		806,314
2015	**	12,764,349
2016		298,302
Thereafter		4,737,127
Total		$ 20,165,942

** A majority of the amount payable in 2015 is offset by an incoming loan receivable in the amount of $10,471,529.

Land and buildings with a net book value of $11,038,529 and $11,946,151 are pledged as collateral at September 30, 2011 and 2010, respectively, primarily on MHFA mortgage notes.

At September 30, 2011, 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 December 29, 2011. The balance is scheduled to be paid in full by December 31, 2016.

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

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 (3.15% at September 30, 2011) and mature on March 31, 2012. At September 30, 2011 and 2010, the amount outstanding was $-0-. In addition, there is a short-term loan of $210,000 that will be renewed on March 31, 2012. 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 2011 and 2010 is $158,463 and $177,713, respectively.

Center for Changing Lives

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

The Organization established a construction loan of up to $6.4 million for the Center for Changing Lives Project. As of September 30, 2011, the Organization has drawn down $2.9 million compared to $3.2 million in 2010. For the first four years, quarterly payments of interest are required at a rate equal to LIBOR plus 1.9%. All funds received for the Capital Campaign must be used to pay down the loan; there are outstanding pledges receivable in the amount of $139,741 as of September 30, 2011.

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

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

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

NOTE 9 LEASES

The Organization has operating lease agreements for office space, 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, 2011, 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
2012	$ 2,162,716
2013	1,540,133
2014	650,291
2015	406,606
2016	195,639
Thereafter	110,307
Total	$ 5,065,691

Rental expense for all operating leases was $2,606,197 and $2,275,292 for the years ended September 30, 2011 and 2010, 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 $1,320,896 and $1,002,025 at September 30, 2011 and 2010, respectively. Accumulated depreciation was $387,805 and $228,100 at September 30, 2011 and 2010, respectively. Future minimum lease payments are as follows:

Year Ending September 30,	Amount
2012	$ 236,250
2013	228,532
2014	220,817
2015	176,166
2016	131,441
Thereafter	106,661
Total Lease Payments	1,099,867
Less Interest Expense	(157,501)
Total Minimum Lease Payments	$ 942,366

NOTE 10 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at September 30, 2011 and 2010:

	2011	2010
Split Interest Deferred Gifts / Trusts	$ 1,361,329	1,325,942
Donations and Forgivable Loan Interest for Property	13,712,933	13,452,398
Cash Restricted by Donors for Specific Program Use	2,701,993	2,667,787
Total	$ 17,776,255	$ 17,446,127

Permanently Restricted

Permanently restricted net assets with investment return restricted for the following purposes at September 30, 2011 and 2010 are as follows:

	2011	2010
Perpetual Trust for VASA Lutheran Home	$ 2,266,716	$ 2,435,456
Endowment Investments	1,084,089	1,083,924
Camp Knutson	57,664	54,584
Other	188,208	191,288
Total	$ 3,596,677	$ 3,765,252

Net Assets Released from Restrictions

The net assets released from restrictions as of September 30, 2011 and 2010 consist of the following:

	2011	2010
Time and Purpose Releases	$ 2,527,709	$ 3,029,198
Building Releases	957,525	956,075
Total	$ 3,485,234	$ 3,985,273

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization provides Guardianship and Conservatorship services for vulnerable adults throughout the state of Minnesota. For these services, the court orders the appointment of a person or agency to act as a substitute decision maker for a person. The Organization follows the National Guardianship Association and the Minnesota Association for Guardianship Conservatorship standards. As of September 30, 2011 and 2010, the Organization was the guardianship or conservator of estates totaling $30,620,295 and $27,644,278, 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, 2011 and 2010.

NOTE 12 ENDOWMENTS

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $202,367 and $155,889 as of September 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations in the endowment fund's investments.

NOTE 12 ENDOWMENTS (CONTINUED)

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

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

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

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

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

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2010	$ (155,889)	$ -	$ 1,329,796	$ 1,173,907
Contributions	-	-	165	165
Investment Return:				
Investment Income	23,126	-	-	23,126
Investment Expenses	(10,762)	-	-	(10,762)
Realized Losses	-	-	-	-
Unrealized Gains	(58,842)	-	-	(58,842)
Total Investment Return	(46,478)	-	-	(46,478)
Endowment Fund Balance, September 30, 2011	$ (202,367)	$ -	$ 1,329,961	$ 1,127,594

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund Balance, September 30, 2009	$ (245,743)	$ -	$ 1,329,132	$ 1,083,389
Contributions	-	-	664	664
Investment Return:				
Investment Income	17,000	-	-	17,000
Investment Expenses	(41,203)	-	-	(41,203)
Realized Losses	(9,206)	-	-	(9,206)
Unrealized Losses	123,263	-	-	123,263
Total Investment Return	89,854	-	-	89,854
Endowment Fund Balance, September 30, 2010	$ (155,889)	$ -	$ 1,329,796	$ 1,173,907