# LUTHERAN SOCIAL SERVICE OF MINNESOTA
# AND AFFILIATES

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED SEPTEMBER 30, 2018 AND 2017

**LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES**
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**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota
January 29, 2019

## LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 2018 AND 2017

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Lutheran Social Service | Children's Home Society of Minnesota | LSS PAA LP and Rolling Hills | Elimination | Lutheran Social Service Consolidated |
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and Cash Equivalents | $ 11,476,007 | $ 135,643 | $ 222,046 | $ - | $ 11,833,696 |
| Pledges Receivable, Net | 996,015 | - | - | - | 996,015 |
| Accounts Receivable, Net | 16,266,476 | 512,829 | 323,175 | (1,205,560) | 15,896,920 |
| Other Current Assets | 628,288 | 249,673 | 24,971 | - | 902,932 |
| Total Current Assets | 29,366,786 | 898,145 | 570,192 | (1,205,560) | 29,629,563 |
| Net Land, Building, and Equipment | 36,524,060 | 6,176,989 | 17,529,223 | (152,000) | 60,078,272 |
| Investments | 6,352,070 | 7,803,727 | - | - | 14,155,797 |
| Goodwill | 1,454,207 | - | - | - | 1,454,207 |
| Long-Term Pledges Receivable | 167,096 | - | - | - | 167,096 |
| Other Assets Limited to Use | 3,478 | - | 68,155 | - | 71,633 |
| Other Assets | 1,096,898 | 196,124 | 1,119,995 | (86,000) | 2,327,017 |
| Loan Receivable | 629,000 | - | - | (629,000) | - |
| Beneficial Interest in Perpetual Trust | 2,827,427 | 1,727,855 | - | - | 4,555,282 |
| Total Assets | $ 78,421,022 | $ 16,802,840 | $ 19,287,565 | $ (2,072,560) | $ 112,438,867 |
| **LIABILITIES AND NET ASSETS** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Accounts Payable, Accrued Liabilities, and Deferred Income | $ 4,956,228 | $ 967,734 | $ 1,521,411 | $ (1,077,699) | $ 6,367,674 |
| Conditional Grants, Current | 329,354 | - | - | - | 329,354 |
| Borrowing Under Line of Credit | 729,664 | - | - | - | 729,664 |
| Accrued Payroll, Benefits, Taxes, and Withholding | 9,689,817 | 353,533 | - | - | 10,043,350 |
| Current Portion of Long-Term Debt | 358,577 | - | 55,189 | - | 413,766 |
| Total Current Liabilities | 16,063,640 | 1,321,267 | 1,576,600 | (1,077,699) | 17,883,808 |
| Accounts Payable to LSS under Management Agreement | - | 849,948 | - | (849,948) | - |
| Accrued Pension Liabilities | 14,605,491 | - | - | - | 14,605,491 |
| Obligation Under Trust Agreement | 1,077,071 | 31,507 | - | - | 1,108,578 |
| Conditional Grants, Long-Term | 4,916,740 | - | - | - | 4,916,740 |
| Asset Retirement Obligation | - | 118,142 | - | - | 118,142 |
| Long-Term Debt, Less Current Portion | 4,778,154 | - | 5,232,288 | (629,000) | 9,381,442 |
| Total Liabilities | 41,441,096 | 2,320,864 | 6,808,888 | (2,556,647) | 48,014,201 |
| **NET ASSETS** | | | | | |
| Unrestricted (Deficit) | 7,876,810 | (244,337) | 12,478,677 | 484,087 | 20,595,237 |
| Temporarily Restricted | 22,798,836 | 6,306,682 | - | - | 29,105,518 |
| Permanently Restricted | 6,304,280 | 8,419,631 | - | - | 14,723,911 |
| Total Net Assets | 36,979,926 | 14,481,976 | 12,478,677 | 484,087 | 64,424,666 |
| Total Liabilities and Net Assets | $ 78,421,022 | $ 16,802,840 | $ 19,287,565 | $ (2,072,560) | $ 112,438,867 |

*See accompanying Notes to Consolidated Financial Statements.*

| 2017 | | | | |
|---|---|---|---|---|
| Lutheran Social Service | Children's Home Society of Minnesota | LSS PAA LP and Rolling Hills | Elimination | Lutheran Social Service Consolidated |
| $ 8,143,760 | $ 111,581 | $ 253,978 | $ - | $ 8,509,319 |
| 1,138,210 | - | - | - | 1,138,210 |
| 17,324,697 | 489,062 | 73,663 | (1,467,859) | 16,419,563 |
| 837,753 | 286,663 | 13,602 | - | 1,138,018 |
| 27,444,420 | 887,306 | 341,243 | (1,467,859) | 27,205,110 |
| 35,992,854 | 6,296,464 | 18,179,183 | (152,000) | 60,316,501 |
| 5,268,779 | 7,433,833 | - | - | 12,702,612 |
| 1,454,207 | - | - | - | 1,454,207 |
| 342,247 | - | - | - | 342,247 |
| 42,541 | - | 37,637 | - | 80,178 |
| 2,057,182 | 182,866 | 1,094,863 | (404,995) | 2,929,916 |
| 629,000 | - | - | (629,000) | - |
| 2,835,911 | 1,689,208 | - | - | 4,525,119 |
| $ 76,067,141 | $ 16,489,677 | $ 19,652,926 | $ (2,653,854) | $ 109,555,890 |
| | | | | |
| $ 4,321,133 | $ 857,972 | $ 1,448,205 | $ (1,308,015) | $ 5,319,295 |
| 329,354 | - | - | - | 329,354 |
| 1,433,125 | - | - | - | 1,433,125 |
| 8,800,282 | 351,722 | - | - | 9,152,004 |
| 308,422 | - | 54,476 | - | 362,898 |
| 15,192,316 | 1,209,694 | 1,502,681 | (1,308,015) | 16,596,676 |
| - | 1,461,335 | - | (1,461,335) | - |
| 16,299,287 | - | - | - | 16,299,287 |
| 1,057,225 | 33,542 | - | - | 1,090,767 |
| 5,246,095 | - | - | - | 5,246,095 |
| - | 142,612 | - | - | 142,612 |
| 4,488,062 | - | 5,274,722 | (629,000) | 9,133,784 |
| 42,282,985 | 2,847,183 | 6,777,403 | (3,398,350) | 48,509,221 |
| 4,029,007 | (918,402) | 12,875,523 | 744,496 | 16,730,624 |
| 24,251,142 | 6,293,291 | - | - | 30,544,433 |
| 5,504,007 | 8,267,605 | - | - | 13,771,612 |
| 33,784,156 | 13,642,494 | 12,875,523 | 744,496 | 61,046,669 |
| $ 76,067,141 | $ 16,489,677 | $ 19,652,926 | $ (2,653,854) | $ 109,555,890 |

*See accompanying Notes to Consolidated Financial Statements.*

**LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF ACTIVITIES**
**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **REVENUE AND PUBLIC SUPPORT** | | | | |
| Revenue: | | | | |
| Government Fees and Grants | $ 126,209,683 | $ 101,855 | $ - | $ 126,311,538 |
| Client Fees and Reimbursed Services | 10,800,137 | - | - | 10,800,137 |
| Investment Income | 28,177 | 514,540 | 53,672 | 596,389 |
| Other Gains (Losses) | 1,016,268 | 10,111 | (8,282) | 1,018,097 |
| Total Revenue | 138,054,265 | 626,506 | 45,390 | 138,726,161 |
| Public Support: | | | | |
| Contributions | 4,053,140 | 2,160,978 | 563,952 | 6,778,070 |
| Nongovernmental Grants | 51,139 | 2,443,294 | - | 2,494,433 |
| Church | 688,659 | 580,112 | - | 1,268,771 |
| United Way | 88,691 | 484,633 | - | 573,324 |
| Total Public Support | 4,881,629 | 5,669,017 | 563,952 | 11,114,598 |
| Net Assets Released from Restriction | 7,736,981 | (8,048,956) | 311,975 | - |
| Total Revenue and Public Support | 150,672,875 | (1,753,433) | 921,317 | 149,840,759 |
| **EXPENSES** | | | | |
| Program Service: | | | | |
| Services for Children/Youth/Families/CFCL | 31,344,191 | - | - | 31,344,191 |
| Services for Older Adults | 13,613,475 | - | - | 13,613,475 |
| Services for People with Disabilities | 85,022,458 | - | - | 85,022,458 |
| Total Program Service Expenses | 129,980,124 | - | - | 129,980,124 |
| Support Service: | | | | |
| Management and General | 13,493,274 | - | - | 13,493,274 |
| Fundraising | 3,188,484 | - | - | 3,188,484 |
| Total Support Service Expenses | 16,681,758 | - | - | 16,681,758 |
| Total Expenses | 146,661,882 | - | - | 146,661,882 |
| **CHANGE IN NET ASSETS - OPERATIONS** | 4,010,993 | (1,753,433) | 921,317 | 3,178,877 |
| **NONOPERATING** | | | | |
| Pass-Through Revenues | 8,179,116 | - | - | 8,179,116 |
| Pass-Through Expenditures | (8,179,116) | - | - | (8,179,116) |
| | - | - | - | - |
| Additional Pension Decrease | 493,796 | - | - | 493,796 |
| Change in Value of Split Interest Agreements | 5,619 | (25,296) | - | (19,677) |
| Change in Value of Trusts | - | (29,228) | (8,483) | (37,711) |
| Change in Value of Investments | 1,878 | 369,042 | 818 | 371,738 |
| Change in Value of Beneficial Interest Holdings | - | - | 38,647 | 38,647 |
| Noncontrolling Interest of LSS Park Avenue Apartments LP and Rolling Hills-St. Paul Apartments LP | (647,673) | - | - | (647,673) |
| Change in Nets Assets Nonoperating | (146,380) | 314,518 | 30,982 | 199,120 |
| **CHANGE IN NET ASSETS** | 3,864,613 | (1,438,915) | 952,299 | 3,377,997 |
| Net Assets - Beginning of Year | 16,730,624 | 30,544,433 | 13,771,612 | 61,046,669 |
| **NET ASSETS - END OF YEAR** | $ 20,595,237 | $ 29,105,518 | $ 14,723,911 | $ 64,424,666 |

*See accompanying Notes to Consolidated Financial Statements.*

| 2017 | | | |
|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| $ 115,337,818 | $ 309,355 | $ - | $ 115,647,173 |
| 10,712,424 | 7,750 | - | 10,720,174 |
| 927 | 757,495 | 30,040 | 788,462 |
| 1,306,287 | (6,848) | (787) | 1,298,652 |
| 127,357,456 | 1,067,752 | 29,253 | 128,454,461 |
| 3,279,962 | 2,561,098 | 300,899 | 6,141,959 |
| 180,698 | 2,156,504 | - | 2,337,202 |
| 497,194 | 418,847 | - | 916,041 |
| 123,162 | 646,513 | - | 769,675 |
| 4,081,016 | 5,782,962 | 300,899 | 10,164,877 |
| 7,769,546 | (7,769,546) | - | - |
| 139,208,018 | (918,832) | 330,152 | 138,619,338 |
| 30,154,647 | - | - | 30,154,647 |
| 12,996,915 | - | - | 12,996,915 |
| 76,640,417 | - | - | 76,640,417 |
| 119,791,979 | - | - | 119,791,979 |
| 12,926,160 | - | - | 12,926,160 |
| 2,891,546 | - | - | 2,891,546 |
| 15,817,706 | - | - | 15,817,706 |
| 135,609,685 | - | - | 135,609,685 |
| 3,598,333 | (918,832) | 330,152 | 3,009,653 |
| 7,702,763 | - | - | 7,702,763 |
| (7,702,763) | - | - | (7,702,763) |
| - | - | - | - |
| 1,976,515 | - | - | 1,976,515 |
| 8,859 | 182,411 | - | 191,270 |
| 3,562 | (55,865) | 112,881 | 60,578 |
| (1,736) | 464,915 | - | 463,179 |
| - | - | 130,916 | 130,916 |
| (748,800) | - | - | (748,800) |
| 1,238,400 | 591,461 | 243,797 | 2,073,658 |
| 4,836,733 | (327,371) | 573,949 | 5,083,311 |
| 11,893,891 | 30,871,804 | 13,197,663 | 55,963,358 |
| $ 16,730,624 | $ 30,544,433 | $ 13,771,612 | $ 61,046,669 |

*See accompanying Notes to Consolidated Financial Statements.*

**LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**
**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

| | 2018 | | | |
|---|---|---|---|---|
| | | Support Services | | |
| | Program Service | Management and General | Fundraising | Total |
| Salaries | $ 52,238,776 | $ 8,018,485 | $ 1,612,294 | $ 61,869,555 |
| Employee Benefits and Payroll Taxes | 14,057,044 | 1,696,075 | 421,946 | 16,175,065 |
| Total Personnel Costs | 66,295,820 | 9,714,560 | 2,034,240 | 78,044,620 |
| Professional Fees and Contract Services | 1,785,108 | 1,042,536 | 27,993 | 2,855,637 |
| Supplies | 780,636 | 36,802 | 5,042 | 822,480 |
| Communication | 1,547,210 | 329,515 | 802,009 | 2,678,734 |
| Occupancy | 6,077,138 | 665,486 | 121,070 | 6,863,694 |
| Equipment | 423,791 | 247,455 | 42,318 | 713,564 |
| Transportation | 2,468,341 | 182,564 | 38,406 | 2,689,311 |
| Staff Development | 845,405 | 646,159 | 94,481 | 1,586,045 |
| Client and Volunteer Expense | 45,661,151 | 69,600 | 5,704 | 45,736,455 |
| Other | 369,719 | 342,776 | 17,221 | 729,716 |
| Total Expense Before Depreciation | 126,254,319 | 13,277,453 | 3,188,484 | 142,720,256 |
| Depreciation | 3,725,805 | 215,821 | - | 3,941,626 |
| Total Expense | $ 129,980,124 | $ 13,493,274 | $ 3,188,484 | $ 146,661,882 |

*See accompanying Notes to Consolidated Financial Statements.*

| 2017 | | | |
|---|---|---|---|
| | Support Services | | |
| Program Service | Management and General | Fundraising | Total |
| $ 49,141,473 | $ 7,445,457 | $ 1,470,995 | $ 58,057,925 |
| 12,951,083 | 1,660,802 | 358,753 | 14,970,638 |
| 62,092,556 | 9,106,259 | 1,829,748 | 73,028,563 |
| | | | |
| 1,842,879 | 1,217,308 | 5,696 | 3,065,883 |
| 760,388 | 41,080 | 6,786 | 808,254 |
| 1,412,343 | 272,468 | 725,072 | 2,409,883 |
| 5,626,655 | 691,200 | 126,923 | 6,444,778 |
| 395,892 | 391,941 | 41,209 | 829,042 |
| 2,499,862 | 52,570 | 29,914 | 2,582,346 |
| 815,160 | 553,364 | 51,546 | 1,420,070 |
| 40,266,986 | 75,312 | 12,342 | 40,354,640 |
| 362,737 | 281,200 | 62,310 | 706,247 |
| 116,075,458 | 12,682,702 | 2,891,546 | 131,649,706 |
| 3,716,521 | 243,458 | - | 3,959,979 |
| $ 119,791,979 | $ 12,926,160 | $ 2,891,546 | $ 135,609,685 |

*See accompanying Notes to Consolidated Financial Statements.*

**LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ 3,377,997 | $ 5,083,311 |
| Change in Value of Split Interest Agreements | (19,677) | (191,270) |
| Change in Value of Trusts | (429,649) | (548,623) |
| Asset Retirement Obligations | (24,470) | (24,303) |
| Adjustment for Pension Liability | (1,693,796) | (3,176,515) |
| Noncash Donations of Low Interest Loans | (329,355) | (329,355) |
| Increase in Accrued Interest | 85,007 | 90,941 |
| Restricted Contributions of Long-Lived Assets | (563,952) | (300,899) |
| Bad Debt Adjustment | 20,792 | 254,959 |
| Realized and Unrealized Gain on Investments | (417,309) | (1,036,776) |
| Depreciation | 4,482,194 | 4,589,833 |
| Amortization of Capital Lease Assets | 128,366 | - |
| Amortization - Other | 80,006 | 76,234 |
| Loss (Gain) on Sale of Land, Building, and Equipment | 128,810 | (87,864) |
| Decrease (Increase) in Receivables | 819,197 | (3,772,007) |
| Decrease in Other Assets | 876,444 | 3,334,599 |
| Increase in Current Liabilities | 1,939,725 | 274,359 |
| Net Cash Provided by Operating Activities | 8,460,330 | 4,236,624 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Investments | (1,028,744) | (371,119) |
| Proceeds from Sale of Investments | 183,864 | 65,375 |
| Proceeds from Sale of Land, Building, and Equipment | - | 91,764 |
| Capital Expenditures | (4,097,611) | (7,088,280) |
| Net Cash Used by Investing Activities | (4,942,491) | (7,302,260) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Line of Credit Payments | (739,796) | (297,044) |
| Long-Term Debt Payments | (270,017) | (363,896) |
| Line of Credit Proceeds | 36,335 | - |
| Restricted Contributions of Long-Lived Assets | 563,952 | 300,899 |
| Distributions from Trusts and Split Interest Agreements | 216,064 | 587,049 |
| Net Cash (Used) Provided by Financing Activities | (193,462) | 227,008 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 3,324,377 | (2,838,628) |
| Cash and Cash Equivalents - Beginning of Year | 8,509,319 | 11,347,947 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 11,833,696 | $ 8,509,319 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | |
| Cash Paid for Interest | $ 277,308 | $ 238,044 |
| Assets Acquired Through Capital Leases | $ 607,146 | $ - |

*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 one of the largest statewide private social service organizations in Minnesota and is affiliated with the six Minnesota synods of the Evangelical Lutheran Church in America. The consolidated financial statements of the Organization include the following Affiliates:

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

Children's Home Society of Minnesota (CHS) is incorporated as a nonprofit organization. CHS exists to help children thrive, and to build, strengthen, and sustain individual, family, and community life. CHS was affiliated with the Organization on October 1, 2014. LSS has control of up to 70% of CHS's board of directors. In addition, the Organization has rented office space from CHS. The effect of these intercompany transactions, including management fees, the leasing of space, and other expenditures, have been eliminated from the Organization's 2018 and 2017 consolidated financial statements. The year-end of CHS is June 30, which differs from the Organization's year-end of September 30.

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

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

The Organization has over 350 program units in over 300 locations in the state of Minnesota that provided services to more than 100,000 persons in 2018.

### 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 Net Assets – 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 Net Assets – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time.

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

### Basis of Presentation (Continued)

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

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

### Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times such deposits may be in excess of Federal Deposit Insurance Corporation 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, 2018 and 2017, the allowance for uncollectible accounts was $176,709 and $202,453, respectively.

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

**Net Land, Buildings, and Equipment**

Property and equipment acquisitions are recorded at cost. Donated items are recorded at fair value on the date received. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The Organization's capitalization threshold for assets with useful life of greater than one year is $1,500.

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

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

**Investments**

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

**Goodwill**

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

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

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

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

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

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

**Long-Lived Assets**

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

**Deferred Financing Costs**

Deferred financing costs consist of finance and closing costs of tax-exempt revenue bonds. These amounts are being amortized over the life of the related liability. These costs are presented net with the related long-term debt (Note 8). The Organization adopted a recently issued accounting standard that required this treatment and this change has been retrospectively applied to prior periods presented as if the policy had always been used.

**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 $291,020 and $414,810 at September 30, 2018 and 2017, 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 2018, is booked at present value of $957,284, as an asset of $2,034,355 and an offsetting liability of $1,077,071 for the value of the future obligations under the trust. As of 2017, the value of the trust was booked at present value of $843,999, as an asset of $1,901,224 and an offsetting liability of $1,057,225 for the value of the future obligations under the trust. The Pittman Trust assets are recorded in the Investments line and the Pittman Trust liability is recorded in the Obligation Under Trust Agreement line on the consolidated statements of financial position.

Various other trust and annuity liabilities have also been recorded at September 30, 2018. The total of these liabilities that have been recorded in the Obligation Under Trust Agreement line on the consolidated statements of financial position totaled $31,507 and $33,542 at September 30, 2018 and 2017, respectively.

## 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.

### 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 $118,142 and $142,612 at September 30, 2018 and 2017, respectively.

### Government Contracts

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

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

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

### Adoption Fees

Adoption fee revenue is included as a part of Client Fees and Reimbursed Services on the consolidated statement of activities. Revenue recognition of adoption fees occurs as follows: half of the initial coordination fees are recognized at the initiation of the adoption process; the remaining portion is amortized over 16 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 consolidated statement of activities as Net Assets Released from Restrictions.

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

### Advertising Expenses

Advertising expenditures are expensed as incurred. Advertising expense for the years ended September 30, 2018 and 2017 totaled $230,759 and $208,214, 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, Children's Home Society of Minnesota, and Partners In Community Supports, Inc. (PICS) have tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) and Minnesota Statute. Rezek House LLC, LSS Townhomes LLC, LSS Supportive Housing LLC, CFCL LLC, and CFCL Duluth LLC are single member limited liability companies, the activities of which are reported within the activities of the Organization as exempt activities. The Organization has been classified as an organization that is a public charity under the IRC and charitable contributions by the donors are tax deductible.

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

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

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

### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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.

### Nonoperating Activities

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

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

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 29, 2019, the date the consolidated financial statements were available to be issued.

## NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2018 and 2017 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, 2018 and 2017. The allowance for uncollectible accounts was $5,185 and $23,015 for 2018 and 2017, respectively.

| | 2018 | 2017 |
|---|---|---|
| Unconditional Pledges Receivable | $ 1,186,059 | $ 1,517,485 |
| Unamortized Discount | (17,763) | (14,013) |
| Allowance for Uncollectible Accounts | (5,185) | (23,015) |
| Total | $ 1,163,111 | $ 1,480,457 |
| Amounts Due in: | | |
| Less Than One Year | $ 1,001,200 | $ 1,161,225 |
| Greater Than One Year | 184,859 | 356,260 |
| Total | $ 1,186,059 | $ 1,517,485 |

Pledges receivable are recorded on the financial statements as follows:

| | 2018 | 2017 |
|---|---|---|
| Current Pledges Receivable | $ 996,015 | $ 1,138,210 |
| Long-Term Pledges Receivable | 167,096 | 342,247 |
| Total | $ 1,163,111 | $ 1,480,457 |

Pledges receivable from board members and employees totaled $467,069 and $331,900 at September 30, 2018 and 2017, respectively.

## NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

### Fair Value Hierarchy

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

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

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

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

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in nonactive 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 Organization adopted ASU No. 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share expedient.

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

**Fair Value Hierarchy (Continued)**

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

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **INVESTMENTS** | | | | |
| Equities | $ 6,054,761 | $ - | $ - | $ 6,054,761 |
| Fixed Income | 2,763,227 | - | - | 2,763,227 |
| Mutual Funds | 1,565,180 | - | - | 1,565,180 |
| Bonds | - | 400,963 | - | 400,963 |
| Real Asset Securities | 88,843 | - | - | 88,843 |
| Total Investments Measured at Fair Value on a Recurring Basis | $ 10,472,011 | $ 400,963 | $ - | $ 10,872,974 |
| **BENEFICIAL INTEREST IN PERPETUAL TRUST** | $ - | $ - | $ 4,555,282 | $ 4,555,282 |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **INVESTMENTS** | | | | |
| Equities | $ 5,066,884 | $ - | $ - | $ 5,066,884 |
| Fixed Income | 2,355,958 | - | - | 2,355,958 |
| Mutual Funds | 1,256,782 | - | - | 1,256,782 |
| Bonds | - | 561,878 | - | 561,878 |
| Real Asset Securities | 91,010 | - | - | 91,010 |
| Total Investments Measured at Fair Value on a Recurring Basis | $ 8,770,634 | $ 561,878 | $ - | $ 9,332,512 |
| **BENEFICIAL INTEREST IN PERPETUAL TRUST** | $ - | $ - | $ 4,525,119 | $ 4,525,119 |

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

**Fair Value Hierarchy (Continued)**

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

| | 2018 | 2017 |
|---|---|---|
| Total Investments | $ 14,155,797 | $ 12,702,612 |
| Investments Not Measured at Fair Value on a Recurring Basis: | | |
| Cash and Cash Equivalents | (366,395) | (623,921) |
| Dynamic Asset Allocation Overlay | (2,041,083) | (1,893,995) |
| Alternative Investments | (1,027,604) | (994,206) |
| Other Investments Within Other Assets | 152,259 | 142,022 |
| Total Investments Measured at Fair Value on a Recurring Basis | $ 10,872,974 | $ 9,332,512 |

**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, 2018 and 2017:

| | Beneficial Interest in Perpetual Trust |
|---|---|
| Balance as of October 1, 2017 | $ 4,525,119 |
| Distribution | (216,064) |
| Change in Value | 246,227 |
| Balance as of September 30, 2018 | $ 4,555,282 |

| | Beneficial Interest in Perpetual Trust |
|---|---|
| Balance as of October 1, 2016 | $ 4,281,321 |
| Distribution | (209,934) |
| Change in Value | 453,732 |
| Balance as of September 30, 2017 | $ 4,525,119 |

The underlying assets consist of securities that are classified as Level 3 assets and the Organization's fair value is determined by taking the fund or trust's total value multiplied by their interest in the fund or trust, as stated in the fund and trust document.

### Net Asset Value Per Share

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

| | 2018 Net Asset Value | 2017 Net Asset Value | Underfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Dynamic Asset Allocation Overlay | $ 2,041,083 | $ 1,893,995 | $ - | Monthly | 90 Days |
| Alternative Investments | 1,027,604 | 994,206 | - | Monthly | 30 Days |
| | $ 3,068,687 | $ 2,888,201 | $ - | | |

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

**Basis for Fair Value Measurements**

***Dynamic Asset Allocation Overlay***

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

***Alternative Investments***

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

## NOTE 4 LAND, BUILDING, AND EQUIPMENT

Cost and related accumulated depreciation at September 30, 2018 and 2017 were:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land | $ 5,665,993 | $ - | $ 5,441,673 | $ - |
| Land Improvements | 1,291,027 | 805,681 | 1,238,745 | 692,789 |
| Construction in Process | 49,344 | - | 386,728 | - |
| Building and Building Improvements | 77,135,369 | 26,208,003 | 73,859,087 | 23,802,204 |
| Equipment | 16,140,349 | 14,277,143 | 15,922,877 | 12,733,174 |
| Vehicles | 152,933 | 152,933 | 152,933 | 149,304 |
| Capital Lease - Vehicles | 945,384 | 187,899 | 1,651,464 | 1,289,067 |
| Donated Artwork | 329,532 | - | 329,532 | - |
| | $ 101,709,931 | $ 41,631,659 | $ 98,983,039 | $ 38,666,538 |
| Net Land, Building, and Equipment | $ 60,078,272 | | $ 60,316,501 | |

## NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUST

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

The Anderson Trust was valued at $2,827,427 and $2,835,911 at September 30, 2018 and 2017, respectively. The distributed income from this trust is to be used for children and adults with disabilities within a 50-mile radius of the old Vasa home located near Red Wing, Minnesota. Income distributions from the trust were $136,064 and $134,934 for the years ended September 30, 2018 and 2017, respectively.

The Humphrey Trust was valued at $1,727,855 and $1,689,208 at September 30, 2018 and 2017, respectively. The Organization was named as a 5% beneficiary of the trust and receives 5% of the designated distributions from the trust. Distributions from the trust were $80,000 and $75,000 for the years ended September 30, 2018 and 2017, respectively.

## NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

### Defined Benefit Pension Plan

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

The measurement dates used for the plan disclosures are as of September 30, 2018 and 2017 and for the years then ended.

The changes in the projected benefit obligation are as follows:

| | 2018 | 2017 |
|---|---|---|
| **Change in Projected Benefit Obligation:** | | |
| Projected Benefit Obligation at Beginning of Year | $ 39,868,624 | $ 40,496,686 |
| Interest Cost | 1,666,586 | 1,685,311 |
| Actuarial Loss (Gain) | 137,319 | (16,658) |
| Benefits Paid | (2,395,730) | (2,296,715) |
| Projected Benefit Obligation at End of Year | $ 39,276,799 | $ 39,868,624 |

## NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

**Defined Benefit Pension Plan (Continued)**

| | 2018 | 2017 |
|---|---|---|
| **Change in Plan Assets:** | | |
| Fair Value of Plan Assets at Beginning of Year | $ 23,569,337 | $ 21,020,884 |
| Actual Return on Plan Assets | 2,365,905 | 3,795,831 |
| Employer Contribution | 1,200,000 | 1,200,000 |
| Expenses | (68,204) | (150,663) |
| Benefits Paid | (2,395,730) | (2,296,715) |
| Fair Value of Plan Assets at End of Year | $ 24,671,308 | $ 23,569,337 |
| **Funded Status of the Plan:** | | |
| Benefit Obligation | $ 39,276,799 | $ 39,868,624 |
| Fair Value of Plan Assets | 24,671,308 | 23,569,337 |
| Excess of Benefit Obligation Over Fair Value of Plan Assets | $ (14,605,491) | $ (16,299,287) |
| **Components of Net Periodic Benefit Costs:** | | |
| Interest Cost | $ 1,666,586 | $ 1,685,311 |
| Expected Return on Plan Assets | (1,837,718) | (1,637,802) |
| Amortization of Net Loss | 569,149 | 674,471 |
| Net Periodic Pension Cost | $ 398,017 | $ 721,980 |
| **Underfunded Plan Information:** | | |
| Projected Benefit Obligation at End of Year | $ 39,276,799 | $ 39,868,624 |
| Accumulated Benefit Obligation at End of Year | 39,276,799 | 39,868,624 |
| Fair Value of Assets at End of Year | 24,671,308 | 23,569,337 |

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

| | 2018 | 2017 |
|---|---|---|
| Actuarial Assumptions | | |
| Assumptions Used to Determine Benefit Obligations at September 30: | | |
| Assumed Discount Rate | 4.30% | 4.25% |
| Assumed Annual Increase in Salaries | - | - |
| Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended September 30: | | |
| Assumed Discount Rate | 4.25% | 4.25% |
| Expected Long-Term Return on Plan Assets | 8.00% | 8.00% |
| Assumed Annual Increase in Salaries | - | - |

## NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

**Defined Benefit Pension Plan (Continued)**

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

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

The percentage of the fair value of total plan assets held as of September 30, 2018 and 2017 (the measurement date) by asset category is as follows:

| | 2018 | 2017 |
|---|---|---|
| The Plan assets are invested as follows: | | |
| Equity Securities | 71% | 82% |
| Debt Securities | 29% | 18% |

***Fair Value Measurement of Plan Assets***

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

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Equities | $ 9,538,356 | $ 1,914,838 | $ - | $ 11,453,194 |
| Mutual Funds | - | 6,111,872 | - | 6,111,872 |
| Bonds | - | 7,023,162 | - | 7,023,162 |
| Total | $ 9,538,356 | $ 15,049,872 | $ - | $ 24,588,228 |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Equities | $ 8,384,245 | $ 2,230,430 | $ - | $ 10,614,675 |
| Mutual Funds | - | 8,537,663 | - | 8,537,663 |
| Bonds | - | 4,253,211 | - | 4,253,211 |
| Total | $ 8,384,245 | $ 15,021,304 | $ - | $ 23,405,549 |

## NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

**Defined Benefit Pension Plan (Continued)**

***Fair Value Measurement of Plan Assets (Continued)***

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

| | 2018 | 2017 |
|---|---|---|
| Total Investments | $ 24,671,308 | $ 23,569,337 |
| Investments Not Measured at Fair Value on a Recurring Basis: | | |
| Cash and Cash Equivalents | (83,080) | (163,788) |
| Total Investments Measured at Fair Value on a Recurring Basis | $ 24,588,228 | $ 23,405,549 |

***Current Funding and Estimated Future Benefit Payments***

The Organization provided funding to the plan of $1,200,000 during the years ended 2018 and 2017. 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 |
|---|---|
| 2019 | $ 2,446,423 |
| 2020 | 2,520,746 |
| 2021 | 2,597,238 |
| 2022 | 2,621,278 |
| 2023 | 2,656,337 |
| 2024-2028 | 12,950,211 |

**Other Postretirement Benefits**

The Organization also has a defined contribution 403(b) retirement savings plan that covers substantially all employees. Employees can elect to contribute a portion of their pretax earnings to the plan. Employees are eligible for participation in the plan upon employment. In 2018 and 2017, 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 2018 and 2017 was 3% and 2% of eligible compensation, respectively. Employees become fully vested in the employer match and discretionary contribution after five years of service. Expenses charged to the Organization’s consolidated financial statements for this plan were $1,326,508 and $567,791 for the years ended September 30, 2018 and 2017, respectively.

## NOTE 7 SELF-INSURED BENEFIT LIABILITIES

In 1992, a benefit fund was established for the Organization's self-funded employee medical, dental, and short-term disability plans. Under the plans, which are administered by the trust, contributions are made by the Organization and employees to pay claims, administrative costs, and commercial insurance premiums. The commercial insurance premiums (stop-loss insurance) cover individual medical claims in excess of $200,000 and aggregate claims over 120% of annual expected claims or $6,700,000. The self-insured medical, dental, and short-term disability expense recorded in the Organization's consolidated financial statements was $9,331,856 and $8,219,165 in 2018 and 2017, respectively. The Organization has recorded liabilities of $1,049,987 and $1,177,370 for claims incurred but not yet paid as of September 30, 2018 and 2017, 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, 2018 and 2017, the Organization has recorded liabilities of $567,080 and $352,944, respectively, for claims incurred but not yet reported. In addition, the Organization has a $1,318,236 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

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Description | Security | Face Value | Current Value | Face Value | Current Value |
| Note Payable to American National Bank of Minnesota, Interest at 5%, Due through May 21, 2018. | Land and Buildings | $ - | $ - | $ 24,022 | $ 24,022 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2020 * | Safe House Land and Building | 40,439 | 2,528 | 40,439 | 4,548 |

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

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Description | Security | Face Value | Current Value | Face Value | Current Value |
| Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Noninterest Bearing, Forgivable in 2037 * | Land and Building | $ 600,000 | $ 381,667 | $ 600,000 | $ 401,667 |
| Note Payable to Sunrise Bank, N.A. 3.90% Interest bearing, Due September 8, 2025 | Harmony House | 266,601 | 266,601 | 274,173 | 274,173 |
| Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due May 18, 2026 | LaVine McGregor | 400,509 | 400,509 | 411,409 | 411,409 |
| Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due October 5, 2026 | Grand Place | 177,967 | 177,967 | 182,641 | 182,641 |
| Capital Leases | Vehicles | 773,863 | 773,863 | 370,333 | 370,333 |
| Subtotal for Lutheran Social Service of Minnesota | | 2,259,379 | 2,003,135 | 1,903,017 | 1,668,793 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2020 * | Land and Building | 521,674 | 34,779 | 521,674 | 60,862 |
| 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 | 408,500 | 305,833 | 402,500 | 291,241 |
| Subtotal for Rezek House LLC | | 930,174 | 340,612 | 924,174 | 352,103 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable May 16, 2033 * | Land and Buildings | 1,720,580 | 851,844 | 1,720,580 | 909,760 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Due May 16, 2033 | Land and Buildings | 119,420 | 76,652 | 119,420 | 74,419 |
| Note Payable to Family Housing Fund, Noninterest Bearing, Due May 16, 2033 | Land and Buildings | 130,000 | 84,363 | 130,000 | 81,907 |
| Note Payable to Minnesota Community Development Authority, Interest at 1%, Principal and Interest Due May 16, 2033 | Land and Buildings | 346,000 | 252,559 | 343,000 | 245,203 |
| Subtotal for LSS Townhomes LLC | | 2,316,000 | 1,265,418 | 2,313,000 | 1,311,289 |

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

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Description | Security | Face Value | Current Value | Face Value | Current Value |
| Note Payable to Family Housing Fund, Noninterest Bearing, Due May 19, 2034 | Land and Buildings | $ 126,000 | $ 76,452 | $ 126,000 | $ 74,046 |
| Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1%, Principal and Interest Due May 19, 2034 | Land and Buildings | 297,269 | 204,934 | 294,669 | 198,478 |
| Note Payable to City of Minneapolis, Interest at 1%, Principal and Interest Due May 19, 2034 | Land and Buildings | 291,190 | 200,853 | 288,645 | 194,535 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Due May 19, 2034 | Land and Buildings | 600,000 | 364,059 | 600,000 | 352,599 |
| Note Payable to City of Minneapolis, Noninterest Bearing, Forgivable May 19, 2034 * | Land and Buildings | 100,000 | 51,945 | 100,000 | 55,277 |
| Total for LSS Supportive Housing LLC | | 1,414,459 | 898,243 | 1,409,314 | 874,935 |
| Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2046 * | Land and Buildings | 4,200,000 | 3,745,000 | 4,200,000 | 3,955,000 |
| City of Duluth Home Loan, Noninterest Bearing, Forgivable in 2046 * | Land and Buildings | 200,000 | 178,331 | 200,000 | 188,335 |
| Total Center for Changing Lives Duluth LLC | | 4,400,000 | 3,923,331 | 4,400,000 | 4,143,335 |
| Note Payable to Wells Fargo, N.A.; Interest at 4.30%, Due January 1, 2028 | Center For Changing Lives - Building and Improvements | 1,953,331 | 1,953,331 | 2,021,480 | 2,021,480 |
| Total for LSS Center for Changing Lives | | 1,953,331 | 1,953,331 | 2,021,480 | 2,021,480 |
| Note Payable to City of Minneapolis AHTF, Interest at 5.50%, Principal and Interest Due May 31, 2037 | Park Avenue Apartments | 895,831 | 895,831 | 849,152 | 849,152 |
| Note Payable to Hennepin County AHIF, Interest at 1%, Principal and Interest Due November 15, 2037 | Park Avenue Apartments | 443,504 | 443,504 | 439,504 | 439,504 |
| Total for Park Avenue Apartments | | 1,339,335 | 1,339,335 | 1,288,656 | 1,288,656 |

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

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| Description | Security | Face Value | Current Value | Face Value | Current Value |
| Note Payable to Sunrise Bank N.A, Interest at 4.50%, Due March 20, 2045 | Rolling Hills Apartments | $ 2,836,687 | $ 2,836,687 | $ 2,891,510 | $ 2,891,510 |
| Note Payable to Lake Energy Investment, Inc., Interest at 7%, Due June 20, 2034 | Rolling Hills Apartments | 150,209 | 150,209 | 241,490 | 241,490 |
| Note Payable to St. Paul City HRA (CDBG), Interest at 3%, Due December 1, 2045 | Rolling Hills Apartments | 57,325 | 57,325 | 55,633 | 55,633 |
| Note Payable to MHFA, 0% Interest Bearing, Due June 20, 2043 | Rolling Hills Apartments | 300,000 | 98,864 | 300,000 | 95,052 |
| Note Payable to Family Housing Fund, 0% Interest Bearing, Due June 20, 2043 | Rolling Hills Apartments | 200,000 | 66,240 | 200,000 | 63,373 |
| Note Payable to Housing & Redevelopment Authority of St. Paul (Home Loan), Interest at 1%, Due June 20, 2045 | Rolling Hills Apartments | 367,460 | 367,460 | 343,892 | 343,892 |
| Total for Rolling Hills Apartments | | 3,911,681 | 3,576,785 | 4,032,525 | 3,690,950 |
| Total Long-Term Debt and Conditional Grants | | 18,524,359 | 15,300,190 | 18,292,166 | 15,351,541 |
| Less: Conditional Grants | | 7,382,693 | 5,246,094 | 7,382,693 | 5,575,449 |
| Total Debt | | 11,141,666 | 10,054,096 | 10,909,473 | 9,776,092 |
| Less: Current Maturities of Long-Term Debt | | 417,732 | 413,766 | 362,898 | 362,898 |
| Less: Debt Issuance Costs | | 258,888 | 258,888 | 279,410 | 279,410 |
| Long-Term Debt, Excluding Current Maturities and Conditional Grants | | $ 10,723,934 | $ 9,381,442 | $ 10,546,575 | $ 9,133,784 |

* Conditional Grants

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

Principal maturities for long-term debt are as follows:

| Year Ending September 30, | Amount |
|---|---|
| 2019 | $ 413,766 |
| 2020 | 438,671 |
| 2021 | 459,497 |
| 2022 | 445,821 |
| 2023 | 369,668 |
| Thereafter | 7,926,673 |
| Total | $ 10,054,096 |

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

Land and buildings with a net book value of $24,809,041 and $21,403,646 are pledged as collateral at September 30, 2018 and 2017, respectively, primarily on MHFA mortgage notes.

### Lines of Credit

The Organization has a total of $5,000,000 of working capital lines of credit with U.S. Bank. The lines bear interest on outstanding borrowings at the bank's reference rate (4.75% at September 30, 2018) and mature on June 17, 2019. At September 30, 2018 and 2017, the amount outstanding was $-0-.

The Organization also has a line of credit with Sunrise Bank in the amount of $3,000,000. This line bears interest on outstanding borrowings at the bank's reference rate (3.75% at September 30, 2018) and matures on July 27, 2024. At September 30, 2018 and 2017, the amount outstanding was $729,664 and $1,433,125, respectively.

### Rolling Hills

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

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

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

The balance outstanding on the loan as of September 30, 2018 and 2017 was $2,836,687 and $2,891,510, respectively. Interest accrues at 4.5% (updated to LIBOR plus 2.5% every five years) and principal payments are due 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, 2018, future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year were:

| Year Ending September 30, | Amount |
|---|---|
| 2019 | $ 2,383,757 |
| 2020 | 1,765,038 |
| 2021 | 1,081,004 |
| 2022 | 703,776 |
| 2023 | 282,352 |
| Thereafter | 55,962 |
| Total | $ 6,271,889 |

Rental expense for all operating leases was $3,139,182 and $3,272,159 for the years ended September 30, 2018 and 2017, 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 $945,384 and $1,651,464 at September 30, 2018 and 2017, respectively. Accumulated depreciation was $187,899 and $1,289,067 at September 30, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

| Year Ending September 30, | Amount |
|---|---|
| 2019 | $ 217,984 |
| 2020 | 213,540 |
| 2021 | 211,559 |
| 2022 | 174,844 |
| 2023 | 77,302 |
| Thereafter | 19,718 |
| Total Lease Payments | 914,947 |
| Less Interest Expense | (141,084) |
| Total Minimum Lease Payments | $ 773,863 |

## NOTE 10 NET ASSETS

**Temporarily Restricted**

Temporarily restricted net assets are available for the following purposes at September 30:

| | 2018 | 2017 |
|---|---|---|
| Split Interest Deferred Gifts / Trusts | $ 1,798,282 | $ 1,745,714 |
| Donations and Forgivable Loan Interest for Property | 19,422,774 | 21,754,209 |
| Cash Restricted by Donors for Specific Program Use | 7,884,462 | 7,044,510 |
| Total | $ 29,105,518 | $ 30,544,433 |

**Permanently Restricted**

Permanently restricted net assets with investment return restricted for the following purposes at September 30, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Beneficial Interest in Perpetual Trusts | $ 4,555,282 | $ 4,525,119 |
| Endowment Investments | 10,168,629 | 9,236,615 |
| Other | - | 9,878 |
| Total | $ 14,723,911 | $ 13,771,612 |

**Net Assets Released from Restrictions**

The net assets released from restrictions as of September 30, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Time and Purpose Releases | $ 5,444,680 | $ 5,440,018 |
| Building Releases | 2,292,301 | 2,329,528 |
| Total | $ 7,736,981 | $ 7,769,546 |

## NOTE 11 ENDOWMENTS

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

## NOTE 11 ENDOWMENTS (CONTINUED)

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $-0- as of September 30, 2018 and 2017.

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

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

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

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

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

| | 2018 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment Fund Balance, September 30, 2017 | $ - | $ 1,170,653 | $ 9,236,615 | $ 10,407,268 |
| Transfer in | - | - | 311,975 | 311,975 |
| Contributions | - | - | 563,952 | 563,952 |
| Investment Return: | | | | |
| Investment Income | - | 75,100 | 56,087 | 131,187 |
| Investment Expenses | - | - | - | - |
| Realized Losses | - | (23,639) | - | (23,639) |
| Unrealized Gains | - | 621,698 | - | 621,698 |
| Total Investment Return | - | 673,159 | 56,087 | 729,246 |
| Appropriations | - | (361,419) | - | (361,419) |
| Endowment Fund Balance, September 30, 2018 | $ - | $ 1,482,393 | $ 10,168,629 | $ 11,651,022 |

## NOTE 11 ENDOWMENTS (CONTINUED)

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

| | 2017 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment Fund Balance, September 30, 2016 | $ - | $ 513,113 | $ 8,906,418 | $ 9,419,531 |
| Contributions | - | - | 300,898 | 300,898 |
| Investment Return: | | | | |
| Investment Income | - | 63,554 | 29,299 | 92,853 |
| Investment Expenses | - | - | - | - |
| Realized Losses | - | (20,193) | - | (20,193) |
| Unrealized Gains | - | 926,941 | - | 926,941 |
| Total Investment Return | - | 970,302 | 29,299 | 999,601 |
| Appropriations | - | (312,762) | - | (312,762) |
| Endowment Fund Balance, September 30, 2017 | $ - | $ 1,170,653 | $ 9,236,615 | $ 10,407,268 |

## NOTE 12 COMMITMENTS AND CONTINGENCIES

A land lease between Luther Seminary and the Organization commenced in 1992 at the site of the new administrative office facility. The lease term is 50 years, with the option to extend the lease for an additional 25 years. Annual rent is $13,911 adjusted every five years for the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. In 2016, Luther Seminary sold land on the Como Avenue site to a developer, triggering a bargain purchase price option which the Organization acted upon in 2017.

The Organization provides Guardianship and Conservatorship services for vulnerable adults throughout the state of Minnesota. For these services, the court orders the appointment of a person or agency to act as a substitute decision maker for a person. The Organization follows the National Guardianship Association and the Minnesota Association for Guardianship Conservatorship standards. As of September 30, 2018 and 2017, the Organization was the guardianship or conservator of estates totaling $43,414,510 and $42,828,251, respectively.

LSS Pooled Trusts allow people with disabilities and/or their families to set aside money for additional needed expenses while protecting their public or private benefits such as Medicaid and Social Security. As of September 30, 2018 and 2017, assets held in the pooled trust amounted to $21,128,796 and $18,562,877, 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, 2018 and 2017.