LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SINGLE AUDIT COMPLIANCE REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Social Service of Minnesota and Affiliates as of September 30, 2020 and 2019, 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.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2021, on our consideration of Lutheran Social Service of Minnesota and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on Lutheran Social Service of Minnesota and Affiliates' effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lutheran Social Service of Minnesota and Affiliates' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 26, 2021

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020				
	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	$ 25,940,852	$ 121,457	$ 289,852	$ -	$ 26,352,161
Pledges Receivable, Net	640,751	-	-	-	640,751
Accounts Receivable, Net	16,035,008	822,354	108,393	(1,087,728)	15,878,027
Other Current Assets	989,188	130,519	16,726	-	1,136,433
Accounts Receivable from LSS under Management Agreement	-	403,979	-	(403,979)	-
Total Current Assets	43,605,799	1,478,309	414,971	(1,491,707)	44,007,372
Net Land, Building, and Equipment	39,144,459	5,937,893	16,289,017	(152,000)	61,219,369
Investments	6,870,311	7,346,084	-	-	14,216,395
Goodwill	1,454,207	-	-	-	1,454,207
Long-Term Pledges Receivable	72,411	9,585	-	-	81,996
Other Assets Limited to Use	97,408	-	67,115	-	164,523
Other Assets	1,332,272	202,048	1,151,204	(86,000)	2,599,524
Loan Receivable	629,000	-	-	(629,000)	-
Beneficial Interest in Perpetual Trust	3,386,968	1,657,367	-	-	5,044,335
Total Assets	$ 96,592,835	$ 16,631,286	$ 17,922,307	$ (2,358,707)	$ 128,787,721
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable, Accrued Liabilities, and Deferred Income	$ 4,966,108	$ 969,157	$ 1,790,336	$ (983,062)	$ 6,742,539
Conditional Grants, Current	-	-	-	-	-
Borrowing Under Line of Credit	1,006,792	-	-	-	1,006,792
Accrued Payroll, Benefits, Taxes, and Withholding	11,628,946	363,530	-	-	11,992,476
Current Portion of Long-Term Debt	645,416	-	55,189	-	700,605
Total Current Liabilities	18,247,262	1,332,687	1,845,525	(983,062)	20,442,412
Accounts Payable to LSS under Management Agreement	-	-	-	-	-
Accrued Pension Liabilities	16,677,440	1,343,117	-	(1,343,117)	16,677,440
Obligation Under Trust Agreement	1,058,399	-	-	-	1,058,399
Conditional Grants, Long-Term	6,820,580	-	-	-	6,820,580
Asset Retirement Obligation	-	58,744	-	-	58,744
Long-Term Debt, Less Current Portion	8,178,662	-	5,189,650	(629,000)	12,739,312
Total Liabilities	50,982,343	2,734,548	7,035,175	(2,955,179)	57,796,887
NET ASSETS					
Net Assets Without Donor Restrictions	25,864,534	4,501,075	10,887,132	596,472	41,849,213
Net Assets With Restrictions	19,745,958	9,395,663	-	-	29,141,621
Total Net Assets	45,610,492	13,896,738	10,887,132	596,472	70,990,834
Total Liabilities and Net Assets	$ 96,592,835	$ 16,631,286	$ 17,922,307	$ (2,358,707)	$ 128,787,721

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2020 AND 2019

2019				
Lutheran Social Service	Children's Home Society of Minnesota	LSS PAA LP and Rolling Hills	Elimination	Lutheran Social Service Consolidated
$ 7,383,108	$ 125,764	$ 187,034	$ -	$ 7,695,906
752,152	-	-	-	752,152
19,265,872	857,100	159,369	(2,125,669)	18,156,672
884,964	198,356	16,934	-	1,100,254
-	-	-	-	-
28,286,096	1,181,220	363,337	(2,125,669)	27,704,984
39,096,867	6,091,659	16,929,500	(152,000)	61,966,026
6,555,679	7,681,513	-	-	14,237,192
1,454,207	-	-	-	1,454,207
421,998	-	-	-	421,998
139,735	-	46,580	-	186,315
1,310,586	202,828	1,121,369	(86,000)	2,548,783
629,000	-	-	(629,000)	-
2,722,252	1,752,499	-	-	4,474,751
$ 80,616,420	$ 16,909,719	$ 18,460,786	$ (2,992,669)	$ 112,994,256
$ 4,853,424	$ 1,042,815	$ 1,656,273	$ (958,460)	$ 6,594,052
562,113	-	-	-	562,113
1,129,244	-	-	-	1,129,244
9,490,259	337,230	-	-	9,827,489
296,577	-	55,189	-	351,766
16,331,617	1,380,045	1,711,462	(958,460)	18,464,664
-	458,868	-	(458,868)	-
15,011,108	1,496,814	-	(1,496,814)	15,011,108
1,070,402	20,011	-	-	1,090,413
6,820,580	-	-	-	6,820,580
-	63,240	-	-	63,240
5,386,324	-	5,209,525	(629,000)	9,966,849
44,620,031	3,418,978	6,920,987	(3,543,142)	51,416,854
19,087,283	3,744,994	11,539,799	550,473	34,922,549
16,909,106	9,745,747	-	-	26,654,853
35,996,389	13,490,741	11,539,799	550,473	61,577,402
$ 80,616,420	$ 16,909,719	$ 18,460,786	$ (2,992,669)	$ 112,994,256

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND PUBLIC SUPPORT			
Revenue:			
Government Fees and Grants	$ 150,210,885	$ 596	$ 150,211,481
Client Fees and Reimbursed Services	11,606,919	-	11,606,919
Investment Income (Loss)	150,318	(35,888)	114,430
Other Gains	1,272,068	576,014	1,848,082
Total Revenue	163,240,190	540,722	163,780,912
Public Support:			
Contributions	4,308,621	2,615,935	6,924,556
Nongovernmental Grants	101,870	3,708,790	3,810,660
Church	444,828	283,180	728,008
United Way	40,667	380,993	421,660
Total Public Support	4,895,986	6,988,898	11,884,884
Net Assets Released from Restriction	5,453,693	(5,453,693)	-
Total Revenue and Public Support	173,589,869	2,075,927	175,665,796
EXPENSES			
Program Service:		-	
Services for Children/Youth/Families/CFCL	32,626,424	-	32,626,424
Services for Older Adults	14,728,301	-	14,728,301
Services for People with Disabilities	99,691,668	-	99,691,668
Total Program Service Expenses	147,046,393	-	147,046,393
Support Service:			
Management and General	14,222,488	-	14,222,488
Fundraising	3,115,587	-	3,115,587
Total Support Service Expenses	17,338,075	-	17,338,075
Total Expenses	164,384,468	-	164,384,468
CHANGE IN NET ASSETS - OPERATIONS	9,205,401	2,075,927	11,281,328
NONOPERATING			
Pass-Through Revenues	11,532,226	-	11,532,226
Pass-Through Expenditures	(11,532,226)	-	(11,532,226)
Total	-	-	-
Additional Pension Increase	(1,666,332)	-	(1,666,332)
Change in Value of Split Interest Agreements	(10,581)	(505)	(11,086)
Change in Value of Trusts	-	55,684	55,684
Change in Value of Investments	4,846	433,488	438,334
Change in Value of Beneficial Interest Holdings	-	(77,826)	(77,826)
Noncontrolling Interest of LSS Park Avenue Apartments LP and Rolling Hills-St. Paul Apartments LP	(606,670)	-	(606,670)
Change in Nets Assets Nonoperating	(2,278,737)	410,841	(1,867,896)
CHANGE IN NET ASSETS	6,926,664	2,486,768	9,413,432
Net Assets - Beginning of Year	34,922,549	26,654,853	61,577,402
NET ASSETS - END OF YEAR	$ 41,849,213	$ 29,141,621	$ 70,990,834

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

2019		
Without Donor Restrictions	With Donor Restrictions	Total
$ 134,552,247	$ 14,000	$ 134,566,247
11,216,005	46,746	11,262,751
89,720	265,181	354,901
1,065,645	-	1,065,645
146,923,617	325,927	147,249,544
4,329,347	3,000,362	7,329,709
105,778	2,850,820	2,956,598
454,306	457,064	911,370
35,329	418,222	453,551
4,924,760	6,726,468	11,651,228
5,948,232	(5,948,232)	-
157,796,609	1,104,163	158,900,772
32,535,328	-	32,535,328
14,109,575	-	14,109,575
91,993,195	-	91,993,195
138,638,098	-	138,638,098
14,105,796	-	14,105,796
3,272,265	-	3,272,265
17,378,061	-	17,378,061
156,016,159	-	156,016,159
1,780,450	1,104,163	2,884,613
9,360,756	-	9,360,756
(9,360,756)	-	(9,360,756)
-	-	-
(3,125,109)	-	(3,125,109)
10,122	201,226	211,348
-	(127,703)	(127,703)
1,143	293,194	294,337
-	24,644	24,644
(872,795)	-	(872,795)
(3,986,639)	391,361	(3,595,278)
(2,206,189)	1,495,524	(710,665)
37,128,738	25,159,329	62,288,067
$ 34,922,549	$ 26,654,853	$ 61,577,402

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

2020

	Program Services				Support Services		
	Children/Youth Families/CFCL	Older Adults	People with Disabilities	Total Program Service	Management General	Fundraising	Total
Salaries	$ 17,708,379	$ 6,521,024	$ 35,434,331	$ 59,663,734	$ 8,528,549	$ 1,617,621	$ 69,809,904
Employee Benefits and Payroll Taxes	4,712,286	1,517,013	9,668,248	15,897,547	1,968,150	421,541	18,287,238
Total Personnel Costs	22,420,665	8,038,037	45,102,579	75,561,281	10,496,699	2,039,162	88,097,142
Professional Fees and Contract Services	1,001,898	220,774	286,875	1,509,547	1,377,162	268,384	3,155,093
Supplies	366,054	553,401	561,410	1,480,865	156,550	5,865	1,643,280
Communication	714,048	311,172	550,454	1,575,674	278,948	579,066	2,433,688
Occupancy	2,109,153	517,157	3,396,324	6,022,634	566,657	120,151	6,709,442
Equipment	358,362	148,645	358,583	865,590	46,109	2,682	914,381
Transportation	538,679	279,884	1,546,623	2,365,186	126,636	20,960	2,512,782
Staff Development	342,165	61,954	358,069	762,188	545,727	31,249	1,339,164
Client and Volunteer Expense	2,663,075	4,491,426	46,652,370	53,806,871	31,377	7,052	53,845,300
Other	238,624	97,817	70,637	407,078	345,715	40,738	793,531
Total Expense Before Depreciation	30,752,723	14,720,267	98,883,924	144,356,914	13,971,580	3,115,309	161,443,803
Depreciation	1,873,701	8,034	807,744	2,689,479	250,908	278	2,940,665
Total Expense	$ 32,626,424	$ 14,728,301	$ 99,691,668	$ 147,046,393	$ 14,222,488	$ 3,115,587	$ 164,384,468

2019

	Program Services				Support Services		
	Children/Youth Families/CFCL	Older Adults	People with Disabilities	Total Program Service	Management General	Fundraising	Total
Salaries	$ 17,441,858	$ 6,176,892	$ 31,770,698	$ 55,389,448	$ 8,240,808	$ 1,499,150	$ 65,129,406
Employee Benefits and Payroll Taxes	5,051,140	1,449,955	8,882,140	15,383,235	1,772,842	394,963	17,551,040
Total Personnel Costs	22,492,998	7,626,847	40,652,838	70,772,683	10,013,650	1,894,113	82,680,446
Professional Fees and Contract Services	547,643	216,121	285,240	1,049,004	1,519,540	325,173	2,893,717
Supplies	203,902	278,499	323,032	805,433	30,578	6,726	842,737
Communication	751,983	319,787	562,763	1,634,533	307,748	756,770	2,699,051
Occupancy	1,915,457	461,778	3,323,955	5,701,190	697,383	146,717	6,545,290
Equipment	337,097	60,658	248,961	646,716	57,990	1,962	706,668
Transportation	870,690	432,228	1,388,330	2,691,248	178,195	42,344	2,911,787
Staff Development	421,189	105,164	350,749	877,102	644,998	53,006	1,575,106
Client and Volunteer Expense	2,719,141	4,455,420	43,841,470	51,016,031	53,300	11,061	51,080,392
Other	344,571	145,479	273,633	763,683	344,936	34,393	1,143,012
Total Expense Before Depreciation	30,604,671	14,101,981	91,250,971	135,957,623	13,848,318	3,272,265	153,078,206
Depreciation	1,930,657	7,594	742,224	2,680,475	257,478	-	2,937,953
Total Expense	$ 32,535,328	$ 14,109,575	$ 91,993,195	$ 138,638,098	$ 14,105,796	$ 3,272,265	$ 156,016,159

See accompanying Notes to Consolidated Financial Statements.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 9,413,432	$ (710,665)
Change in Value of Split Interest Agreements	(2,919)	190,962
Change in Value of Trusts	(910,288)	(302,248)
Asset Retirement Obligations	(4,496)	(54,902)
Adjustment for Pension Liability	1,666,332	405,617
Notes Payable Forgiven	(562,113)	-
Increase in Accrued Interest	68,443	84,630
Restricted Contributions of Long-Lived Assets	(32,610)	(109,010)
Bad Debt Adjustment	262,520	593,214
Realized and Unrealized Gain on Investments	(72,618)	(198,305)
Depreciation	3,567,358	3,569,130
Amortization of Capital Lease Assets	181,493	181,120
Amortization - Other	65,139	63,362
Gain on Sale of Land, Building, and Equipment	(778,186)	-
Decrease (Increase) in Receivables	2,467,528	(2,864,005)
Increase in Other Assets	(64,095)	(718,263)
Increase in Current Liabilities	2,313,474	10,517
Net Cash Provided by Operating Activities	17,578,394	141,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(217,689)	(139,515)
Proceeds from Sale of Investments	450,420	397,333
Proceeds from Sale of Land, Building, and Equipment	853,773	-
Capital Expenditures	(3,077,781)	(5,638,004)
Net Cash Used by Investing Activities	(1,991,277)	(5,380,186)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of Credit Payments	(122,452)	(364,107)
Long-Term Debt Payments	(748,774)	(374,585)
Line of Credit Proceeds	-	763,687
Long-Term Debt Proceeds	3,736,494	750,000
Restricted Contributions of Long-Lived Assets	32,610	109,010
Distributions from Trusts and Split Interest Agreements	171,260	217,237
Net Cash Provided by Financing Activities	3,069,138	1,101,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,656,255	(4,137,790)
Cash and Cash Equivalents - Beginning of Year	7,695,906	11,833,696
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 26,352,161	$ 7,695,906
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 245,630	$ 190,536

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

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 2020.

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, has been eliminated from the Organization's 2020 and 2019 consolidated financial statements. The year-end of CHS is June 30, which differs from the Organization's year-end of September 30.

Basis of Presentation

Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – are not restricted by donors, or the donor-imposed restrictions have expired. Net assets without donor restrictions represent funds that are fully available, at the discretion of management and the board of directors for the Organization to utilize in any of its programs or supporting services.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net Assets With Donor Restrictions – are comprised of funds subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, as well as certain income earned on net assets with donor restrictions that has not yet been appropriated for expenditure by the Organization’s board of directors. Other donor-imposed restrictions are perpetual on nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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’s 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, 2020 and 2019, the allowance for uncollectible accounts was $452,666 and $422,910, 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 and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.

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).

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 with donor restrictions, consistent with the method used to initially record the contributions.

The value of these gifts was $489,092 and $492,011 at September 30, 2020 and 2019, 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 2020, is booked at present value of $1,595,444, as an asset of $2,653,843 and an offsetting liability of $1,058,399 for the value of the future obligations under the trust. As of 2019, the value of the trust was booked at present value of $1,065,101, as an asset of $2,135,503 and an offsetting liability of $1,070,402 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, 2020. The total of these liabilities that have been recorded in the Obligation Under Trust Agreement line on the consolidated statements of financial position totaled $-0- and $20,011 at September 30, 2020 and 2019, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conditional Grants

Forgivable loans are considered a conditional contribution. Loan proceeds received are recorded as a long-term liability until the barrier is met on the maturity date of the forgivable loan. Revenue from these loans is recognized upon the maturity date.

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 $58,744 and $63,240 at September 30, 2020 and 2019, 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 income.

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 general use unless specifically restricted by the donor.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

The Organization reports gifts as with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as Net Assets Released from Restrictions.

Advertising Expenses

Advertising expenditures are expensed as incurred. Advertising expense for the years ended September 30, 2020 and 2019 totaled $211,495 and $259,729, respectively.

Functional Expense Allocation

Salaries and related benefits are allocated based on employees' and management's direct time spent on program or support activities or the best estimate of time spent. Occupancy and depreciation are allocated based on direct program or support service usage. Other expenses, such as professional fees and staff development, are directly identified to specific programs or administrative functions.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Change in Accounting Principle

The Organization adopted Financial Accounting Standards Board (FASB) ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for the year ended September 30, 2020. This ASU has been applied retrospectively to all periods presented which decreased beginning net assets by $2,136,599 and revenue by $329,355 for the year ended September 30, 2019.

In March 2017, FASB issued Accounting Standards Update (ASU) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The update improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. Employers are required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statement of activities separately from this component. The Organization has implemented ASU 2017-07 which resulted in no change in financial statement presentation.

Risks and Uncertainties

The Coronavirus Disease 2019 (COVID-19) has affected global markets, supply chains, employees of companies, and our communities. As a result, COVID-19 may impact various parts of the Organization’s fiscal year 2021 operations and financial results including program service fee income, grants and contracts, contributions and various expenses. Management believes that the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 26, 2021, the date the consolidated financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable at September 30, 2020 and 2019 consist of commitments from various donors. The discount rate has been imputed at 3.25% and 4.25%, which approximates the Organization's risk free borrowing rate at September 30, 2020 and 2019, respectively. The allowance for uncollectible accounts was $34,810 and $4,710 for 2020 and 2019, respectively.

	2020	2019
Unconditional Pledges Receivable	$ 765,797	$ 1,204,503
Unamortized Discount	(8,240)	(25,643)
Allowance for Uncollectible Accounts	(34,810)	(4,710)
Total	$ 722,747	$ 1,174,150
Amounts Due in:		
Less Than One Year	$ 675,562	$ 756,862
Greater Than One Year	90,235	447,641
Total	$ 765,797	$ 1,204,503

Pledges receivable are recorded on the consolidated financial statements as follows:

	2020	2019
Current Pledges Receivable	$ 640,751	$ 752,152
Long-Term Pledges Receivable	81,996	421,998
Total	$ 722,747	$ 1,174,150

Pledges receivable from board members and employees totaled $315,844 and $337,578 at September 30, 2020 and 2019, 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).

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:

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities	$ 5,936,277	$ -	$ -	$ 5,936,277
Fixed Income	2,877,904	-	-	2,877,904
Mutual Funds	1,671,971	-	-	1,671,971
Bonds	-	466,942	-	466,942
Real Asset Securities	87,275	-	-	87,275
Total Investments Measured at Fair Value on a Recurring Basis	$ 10,573,427	$ 466,942	$ -	$ 11,040,369
Beneficial Interest in Perpetual Trust	$ -	$ -	$ 5,044,335	$ 5,044,335

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities	$ 5,858,759	$ -	$ -	$ 5,858,759
Fixed Income	2,950,954	-	-	2,950,954
Mutual Funds	1,598,269	-	-	1,598,269
Bonds	-	446,015	-	446,015
Real Asset Securities	100,702	-	-	100,702
Total Investments Measured at Fair Value on a Recurring Basis	$ 10,508,684	$ 446,015	$ -	$ 10,954,699
Beneficial Interest in Perpetual Trust	$ -	$ -	$ 4,474,751	$ 4,474,751

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:

	2020	2019
Total Investments	$ 14,216,395	$ 14,237,192
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(428,543)	(377,950)
Dynamic Asset Allocation Overlay	(1,867,513)	(2,021,130)
Alternative Investments	(1,039,930)	(1,042,141)
Other Investments Within Other Assets	159,960	158,728
Total Investments Measured at Fair Value on a Recurring Basis	$ 11,040,369	$ 10,954,699

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:

	Beneficial Interest in Perpetual Trust
Balance as of October 1, 2019	$ 4,474,751
Distribution	(171,260)
Additions	593,039
Change in Value	147,805
Balance as of September 30, 2020	$ 5,044,335
Balance as of October 1, 2018	$ 4,555,282
Distribution	(217,237)
Change in Value	136,706
Balance as of September 30, 2019	$ 4,474,751

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 consolidated 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:

	Net Asset Value		Underfunded	Redemption	Redemption
	2020	2019	Commitments	Frequency	Notice Period
Dynamic Asset Allocation Overlay	$ 1,867,513	$ 2,021,130	$ -	Monthly	90 Days
Alternative Investments	1,039,930	1,042,141	-	Monthly	30 Days
Total	$ 2,907,443	$ 3,063,271	$ -		

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 were:

	2020		2019	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 6,958,466	$ -	$ 6,794,601	$ -
Land Improvements	2,005,399	923,266	1,882,927	859,176
Construction in Process	80,509	-	122,689	-
Building and Building Improvements	82,275,389	31,576,545	80,236,843	28,993,110
Equipment	16,844,299	15,174,286	16,890,348	15,014,993
Vehicles	841,700	841,700	152,933	152,933
Capital Lease - Vehicles	905,599	510,727	945,384	369,019
Donated Artwork	334,532	-	329,532	-
	$ 110,245,893	$ 49,026,524	$ 107,355,257	$ 45,389,231
Net Land, Building, and Equipment	$ 61,219,369		$ 61,966,026	

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Organization has two perpetual trusts included in net assets with donor restrictions. 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 balance of net assets with donor restrictions.

The Anderson Trust was valued at $3,386,968 and $2,722,252 at September 30, 2020 and 2019, 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 $103,760 and $137,237 for the years ended September 30, 2020 and 2019, respectively.

The Humphrey Trust was valued at $1,657,367 and $1,752,499 at September 30, 2020 and 2019, 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 $67,500 and $80,000 for the years ended September 30, 2020 and 2019, 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, 2020 and 2019 and for the years then ended.

The changes in the projected benefit obligation are as follows:

	2020	2019
Change in Projected Benefit Obligation:		
Projected Benefit Obligation at Beginning of Year	$ 39,128,355	$ 39,276,799
Interest Cost	1,494,576	1,636,304
Actuarial Loss	2,258,658	648,167
Benefits Paid	(2,453,216)	(2,432,915)
Projected Benefit Obligation at End of Year	$ 40,428,373	$ 39,128,355

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

	2020	2019
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	$ 24,117,247	$ 24,671,308
Actual Return on Plan Assets	2,086,902	678,854
Employer Contribution	-	1,200,000
Expenses	-	-
Benefits Paid	(2,453,216)	(2,432,915)
Fair Value of Plan Assets at End of Year	$ 23,750,933	$ 24,117,247
Funded Status of the Plan:		
Benefit Obligation	$ 40,428,373	$ 39,128,355
Fair Value of Plan Assets	23,750,933	24,117,247
Excess of Benefit Obligation Over Funded Status of the Plan at End of Year	$ (16,677,440)	$ (15,011,108)
Components of Net Periodic Benefit Costs:		
Interest Cost	$ 1,494,576	$ 1,636,304
Expected Return on Plan Assets	(1,874,101)	(1,923,848)
Amortization of Net Loss	626,326	511,699
Net Periodic Pension Cost	$ 246,801	$ 224,155
Underfunded Plan Information:		
Projected Benefit Obligation at End of Year	$ 40,428,373	$ 39,128,355
Accumulated Benefit Obligation at End of Year	40,428,373	39,128,355
Fair Value of Assets at End of Year	23,750,933	24,177,247

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

	2020	2019
<u>Actuarial Assumptions</u>		
Assumptions Used to Determine Benefit Obligations at September 30:		
Assumed Discount Rate	3.30%	3.95%
Assumed Annual Increase in Salaries	-	-
Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended September 30:		
Assumed Discount Rate	3.95%	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, 2020 and 2019 (the measurement date) by asset category is as follows:

	2020	2019
The Plan assets are invested as follows:		
Equity Securities and Mutual Funds	75%	69%
Debt Securities and Fixed Income Mutual Funds	25%	31%

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:

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities	$ 9,930,863	$ -	$ 216,553	$ 10,147,416
Mutual Funds	7,010,122	-	-	7,010,122
Fixed Income Mutual Funds	4,017,099			4,017,099
Bonds	-	1,724,271	-	1,724,271
Total	$ 20,958,084	$ 1,724,271	$ 216,553	$ 22,898,908

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities	$ 6,948,693	$ 370,646	$ 202,169	$ 7,521,508
Mutual Funds	8,311,519	572,116	-	8,883,635
Fixed Income Mutual Funds	3,103,663			3,103,663
Bonds	672,129	3,560,903	-	4,233,032
Total	$ 19,036,004	$ 4,503,665	$ 202,169	$ 23,741,838

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:

	2020	2019
Total Investments	$ 23,750,933	$ 24,117,247
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(852,025)	(375,409)
Total Investments Measured at Fair Value on a Recurring Basis	$ 22,898,908	$ 23,741,838

Current Funding and Estimated Future Benefit Payments

The Organization provided funding to the plan of $-0- and $1,200,000 during the years ended 2020 and 2019.

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

Year Ending September 30,	Amount
2021	$ 2,614,900
2022	2,625,000
2023	2,676,000
2024	2,646,000
2025	2,642,000
2026-2030	12,772,700

Multiemployer Defined Benefit Pension Plan

CHS participated in a multiemployer defined benefit pension plan with 15 other agencies. Of the approximate 1,100 participants, 28% were those of CHS. Benefit accruals under the plan were frozen on December 31, 2004 and, as a result, employees did not earn additional defined benefits for services after that date.

On September 24, 2019, the participating agencies terminated the plan and paid off the pension liability. In order to finance the pay-off, nine of the participating agencies secured financing through a pooled loan of $2,067,965 with U.S. Bank. All 16 participating agencies are 20% guarantors on the U.S. Bank pooled loan. The remaining participating agencies secured their own separate financing. The CHS portion of the guarantee is $302,737.

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Multiemployer Defined Benefit Pension Plan (Continued)

CHS secured its financing through LSS, which entered into a loan with Sunrise Bank (Sunrise) for the CHS portion of the liability totaling $1,513,687. With the pension liability paid in full, CHS will no longer make monthly pension liability contribution payments. The CHS financing was secured in two parts. A term loan for $750,000 bears interest at 5% (locked for five years, then variable based on the U.S. Treasury Constant five-year maturity rate (currently 1.4%), plus a margin of 2.25%), with a loan term of 10 years. The balance of $763,687 was financed through a line of credit with Sunrise and bears interest at 3.75% for a term of five years.

Under U.S. GAAP, since the liability for the pension obligation had become probable and estimable as of CHS's year-end of June 30, 2019, the pension liability was recorded on the consolidated financial statements at June 30, 2019 with an increase to liabilities and pension settlement expense of $1,513,687.

Prior to June 30, 2019, in accordance with U.S. GAAP, the pension liability was not recorded on the statement of financial position. CHS recognized as net pension cost the required contribution for the period as a liability any contribution due and unpaid. The funding was determined by the actuary and was allocated based on employee compensation among the participating agencies. The objective in funding the plan was to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeded the fair market value of plan assets, continued annual contributions were required in order to achieve full funding. If any participating agency defaulted on their annual contributions, the remaining agencies assumed the liability and contributions of the agency in default.

CHS made contributions of $61,955 and $371,732 in the years ended June 30, 2020 and 2019, respectively, which are included in Employee Benefits and Payroll Taxes Expense on the statement of functional expenses. These contributions represented 28% of total plan contributions in 2020 and 2019, respectively.

The legal name of the plan is the Twin Cities Nonprofit Partners Pension Plan with an E.I.N. of 41-1973442/333. The percentage funded under the Pension Protection Act was 110% at June 30, 2020 and 2019, respectively.

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

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 2020 and 2019, 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 2020 and 2019 was 0% 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 $774,846 and $1,231,710 for the years ended September 30, 2020 and 2019, 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 $10,463,798 and $9,607,918 in 2020 and 2019, respectively. The Organization has recorded liabilities of $1,455,763 and $1,180,969 for claims incurred but not yet paid as of September 30, 2020 and 2019, 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, 2020 and 2019, the Organization has recorded liabilities of $519,936 and $602,934, respectively, for claims incurred but not yet reported. In addition, the Organization has a $1,499,751 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

		2020		2019	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note payable to Sunrise bank, N.A. 3.90% Interest bearing Due March 26, 2030	Land and Buildings	$ 1,732,435	$ 1,732,435	$ -	$ -
Note payable to Sunrise bank, N.A. 3.90% Interest bearing Due March 26, 2030	Land and Buildings	1,848,896	1,848,896	-	-
Note Payable to Sunrise Bank, Interest at 5%, Due through September 18, 2029 for CHS Pension Plan Payment	Eustis Building	645,111	645,111	750,000	750,000
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2020 *	Safe House Land and Building	-	-	40,439	40,439
Note Payable to Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund, Noninterest Bearing, Forgivable in 2037 *	Land and Building	600,000	600,000	600,000	600,000
Note Payable to Sunrise Bank, N.A. 3.90% Interest bearing, Due September 8, 2025	Harmony House	250,887	250,887	259,609	259,609
Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due May 18, 2026	LaVine McGregor	377,964	377,964	389,528	389,528
Note Payable to Sunrise Bank, N.A. 3.90% Interest Bearing, Due October 5, 2026	Grand Place	168,544	168,544	173,552	173,552
Capital Leases	Vehicles	423,542	423,542	606,513	606,513
Subtotal for Lutheran Social Service of Minnesota		6,047,379	6,047,379	2,819,641	2,819,641
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2020 *	Land and Building	-	-	521,674	521,674
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	420,500	337,242	414,500	321,155
Subtotal for Rezek House LLC		420,500	337,242	936,174	842,829

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

		2020		2019	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable May 16, 2033*	Land and Buildings	$ 1,720,580	$ 1,720,580	$ 1,720,580	$ 1,720,580
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Due May 16, 2033	Land and Buildings	119,420	81,319	119,420	78,951
Note Payable to Family Housing Fund, Noninterest Bearing, Due May 16, 2033	Land and Buildings	130,000	89,502	130,000	86,895
Note Payable to Minnesota Community Development Authority, Interest at 1%, Principal and Interest Due May 16, 2033	Land and Buildings	352,000	267,940	349,000	260,136
Subtotal for LSS Townhomes LLC		2,322,000	2,159,341	2,319,000	2,146,562
Note Payable to Family Housing Fund, Noninterest Bearing, Due May 19, 2034	Land and Buildings	126,000	81,503	126,000	78,937
Note Payable to Hennepin County Housing and Redevelopment Authority, Interest at 1%, Principal and Interest Due May 19, 2034	Land and Buildings	302,414	218,426	299,869	211,599
Note Payable to City of Minneapolis, Interest at 1%, Principal and Interest Due May 19, 2034	Land and Buildings	296,335	214,169	293,735	207,377
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Due May 19, 2034	Land and Buildings	600,000	388,107	600,000	375,891
Note Payable to City of Minneapolis Noninterest Bearing, Forgivable May 19, 2034 *	Land and Buildings	100,000	100,000	100,000	100,000
Total for LSS Supportive Housing LLC		1,424,749	1,002,205	1,419,604	973,804
Note Payable to Minnesota Housing Finance Agency, Noninterest Bearing, Forgivable in 2046 *	Land and Buildings	4,200,000	4,200,000	4,200,000	4,200,000
City of Duluth Home Loan, Noninterest Bearing, Forgivable in 2046 *	Land and Buildings	200,000	200,000	200,000	200,000
Total Center for Changing Lives Duluth LLC		4,400,000	4,400,000	4,400,000	4,400,000

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

		2020		2019	
Description	Security	Face Value	Current Value	Face Value	Current Value
Note Payable to Wells Fargo, N.A.; Interest at 4.30%, Due January 1, 2028	Center for Changing Lives - Building and Improvements	$ 1,810,575	$ 1,810,575	$ 1,882,759	$ 1,882,759
Total for LSS Center for Changing Lives		1,810,575	1,810,575	1,882,759	1,882,759
Note Payable to City of Minneapolis AHTF, Interest at 5.50%, Principal and Interest Due May 31, 2037	Park Avenue Apartments	997,035	997,035	945,079	945,079
Note Payable to Hennepin County AHIF, Interest at 1%, Principal and Interest Due November 15, 2037	Park Avenue Apartments	451,504	451,504	447,504	447,504
Total for Park Avenue Apartments		1,448,539	1,448,539	1,392,583	1,392,583
Note Payable to Sunrise Bank N.A, Interest at 4.50%, Due March 20, 2045	Rolling Hills Apartments	2,720,379	2,720,379	2,779,688	2,779,688
Note Payable to Lake Energy Investment, Inc., Interest at 7%,	Rolling Hills Apartments	-	-	79,619	79,619
Note Payable to St. Paul City HRA (CDBG), Interest at 3%, Due December 1, 2045	Rolling Hills Apartments	60,865	60,865	58,335	58,335
Note Payable to MHFA, Noninterest Bearing, Due June 20, 2043	Rolling Hills Apartments	300,000	108,391	300,000	103,849
Note Payable to Family Housing Fund, Noninterest Bearing, Due June 20, 2043	Rolling Hills Apartments	200,000	72,263	200,000	69,234
Note Payable to Housing & Redevelopment Authority of St. Paul (Home Loan), Interest at 1%, Due June 20, 2045	Rolling Hills Apartments	1,022,458	423,946	1,004,144	391,186
Total for Rolling Hills Apartments		4,303,702	3,385,844	4,421,786	3,481,911
Total Long-Term Debt and Conditional Grants		22,177,444	20,591,125	19,591,547	17,940,089
Less: Conditional Grants		6,820,580	6,820,580	7,382,693	7,382,693
Total Debt		15,356,864	13,770,545	12,208,854	10,557,396
Less: Current Maturities of Long-Term Debt		700,605	700,605	351,766	351,766
Less: Debt Issuance Costs		330,628	330,628	238,781	238,781
Long-Term Debt, Excluding Current		$ 14,656,259	$ 12,739,312	$ 11,857,088	$ 9,966,849

* Conditional Grants

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

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
2021	$ 700,605
2022	724,057
2023	643,787
2024	603,813
2025	941,857
Thereafter	10,156,426
Total	$ 13,770,545

Land and buildings with a net book value of $45,985,954 and $42,345,358 are pledged as collateral at September 30, 2020 and 2019, respectively, primarily on MHFA mortgage notes.

Lines of Credit

The Organization has a total of $7,000,000 of working capital lines of credit with U.S. Bank. The lines bear interest on outstanding borrowings at the bank's reference rate (2.46% at September 30, 2020) and matures on June 17, 2021. At September 30, 2020 and 2019, 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, 2020) and matures on July 27, 2024. At September 30, 2020 and 2019, the amount outstanding was $1,006,792 and $1,129,244, 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, 2020 and 2019 was $2,720,379 and $2,779,688, 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, 2020, 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
2021	$ 1,893,508
2022	1,506,995
2023	1,081,621
2024	667,450
2025	248,844
Thereafter	143,271
Total	$ 5,541,689

Rental expense for all operating leases was $3,499,389 and $3,507,238 for the years ended September 30, 2020 and 2019, 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 $905,599 and $945,384 at September 30, 2020 and 2019, respectively. Accumulated depreciation was $510,727 and $369,019 at September 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

Year Ending September 30,	Amount
2021	$ 207,040
2022	170,186
2023	72,495
Total Lease Payments	449,721
Less: Interest Expense	(26,179)
Total Minimum Lease Payments	$ 423,542

NOTE 10 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	2020	2019
Subject to Expenditure for Specified Purpose:		
Cash Restricted by Donors for Specific Program Use	$ 10,098,050	$ 8,016,983
Subject to Passage of Time:		
Split Interest Deferred Gifts / Trusts	1,878,356	1,741,491
Donations and Forgivable Loan Interest for Property	628,461	711,583
Beneficial Interest in Perpetual Trusts	5,044,335	4,474,751
Total	7,551,152	6,927,825
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	1,137,622	1,404,737
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity:		
Endowment Funds	10,354,797	10,305,308
Total Endowments	11,492,419	11,710,045
Total Net Assets with Donor Restriction	$ 29,141,621	$ 26,654,853

Net Assets Released from Restrictions

The net assets released from restrictions as of September 30 consist of the following:

	2020	2019
Purpose Restrictions	$ 5,003,758	$ 5,520,471
Appropriation of Endowment Earnings	449,935	427,761
Total	$ 5,453,693	$ 5,948,232

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 U.S. 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 net assets with donor restrictions the original value of the gifts to the perpetual endowment and the value of subsequent gifts to the perpetual endowment.

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 U.S. GAAP, deficiencies of this nature that are reported in net assets without donor restrictions were $-0- as of September 30, 2020 and 2019.

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 with donor restrictions for the years ended September 30 is as follows:

	2020	2019
Endowment Fund Balance, Beginning of Year	$ 11,710,045	$ 11,651,022
Contributions	32,610	109,010
Net Investment Return	199,699	377,774
Appropriations	(449,935)	(427,761)
Endowment Fund Balance, End of Year	$ 11,492,419	$ 11,710,045

NOTE 12 COMMITMENTS AND CONTINGENCIES

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, 2020 and 2019, the Organization was the guardianship or conservator of estates totaling $48,043,869 and $51,613,843, 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, 2020 and 2019, assets held in the pooled trust amounted to $27,659,244 and $22,462,894, respectively.

The Organization is involved in legal action in regard 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, 2020 and 2019.

NOTE 13 LIQUIDITY AND AVAILABILITY

The Organization’s liquidity management includes an $10 million line of credit of which approximately $8.9 million is currently available. In the event of an unanticipated liquidity need, the Organization would draw from the line of credit.

The following reflects the Organization's financial assets as of the statement of financial position date, including amounts not available within one year of the statement of financial position date. Amounts not available include unappropriated earnings of the endowment funds that could be drawn upon if the governing boards of Lutheran Social Services of Minnesota and/or Children’s Home Society of Minnesota approve that action.

	2020	2019
Cash, Accounts and Pledges Receivable and Investments as of September 30	$ 57,087,334	$ 40,841,922
Less:		
Contractual or Donor-Imposed Restrictions Making Financial Assets Unavailable for General Expenditures	(21,590,469)	(19,727,028)
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	$ 35,496,865	$ 21,114,894

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Service of Minnesota and Affiliates, which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 26, 2021January 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lutheran Social Service of Minnesota and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lutheran Social Service of Minnesota and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Service of Minnesota and Affiliates' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lutheran Social Service of Minnesota and Affiliates' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Lutheran Social Service of Minnesota and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lutheran Social Service of Minnesota and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 26, 2021

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Service of Minnesota and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lutheran Social Service of Minnesota and Affiliates' major federal programs for the year ended September 30, 2020. Lutheran Social Service of Minnesota and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lutheran Social Service of Minnesota and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lutheran Social Service of Minnesota and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lutheran Social Service of Minnesota and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Lutheran Social Service of Minnesota and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of Lutheran Social Service of Minnesota and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lutheran Social Service of Minnesota and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Service of Minnesota and Affiliates' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
January 26, 2021

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Agriculture					
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Community Health Board	192MN004W5003	$ -	$ 35,289
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	MN Dept. of Human Services	GRK%163791	-	62,893
Emergency Food Assistance Program	10.569	Second Harvest Heartland	GRK%144570		7,911
Total Department of Agriculture				-	106,093
Department of Housing and Urban Development					
Continuum of Care Program - Hearth Act	14.267			5,531	902,804
Continuum of Care Program - Hearth Act	14.267	Hearth Connection	41-1976959	-	159,458
Total Continuum of Care Program - Hearth Act				5,531	1,062,262
Housing Counseling	14.169	MHFA	FY2020-11	-	75,137
Community Development Block Grants	14.218	St. Louis County	2019-13035	-	2,500
Community Development Block Grants	14.218	City of St Cloud	CDBG-2019-06/CDBG-2020-10	-	4,000
Total Community Development Block Grants				-	6,500
Emergency Shelter Grants Program	14.231	City of St. Paul	E16-MC-27-0007	-	21,802
HOME Investment Partnership Program	14.239	City of Minneapolis	HD00000507	-	254,500
HOME Investment Partnership Program	14.239	St. Paul PED	02468-37365-1	-	300,000
HOME Investment Partnership Program	14.239	City of Duluth CDBG	22726	-	200,000
Total HOME Investment Partnership Program				-	754,500
Total Department of Housing and Urban Development				5,531	1,920,200
Department of State					
US Refugee Admissions Program	19.510	Lutheran Immigration and Refugee Services	S-PRMCO-18-CA-0003	-	173,627
Total Department of State				-	173,627
US Treasury					
COVID-19: Coronavirus Relief Fund	21.019	Hennepin County	11440	-	529
COVID-19: Coronavirus Relief Fund	21.019	Hennepin County	PR00002573	-	22,439
COVID-19: Coronavirus Relief Fund	21.019	MHFA	CHAP-079728721	-	194,951
COVID-19: Coronavirus Relief Fund	21.019	Rock County	41-6005885	-	3,500
Total US Treasury				-	221,419
Department of Health and Human Services					
Seeing and Exploring Life's Future (SELF) Pregnancy Prevention Program	93.060			-	278,734
Transitional Living for Homeless Youth	93.550			-	945,976
COVID-19: Transitional Living for Homeless Youth	93.550			-	227,640
Total Transitional Living for Homeless Youth				-	1,173,617
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557			-	431,030
COVID-19: Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557			-	46,181
Total Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth				-	477,211
Basic Center Grant	93.623			-	602,701
COVID-19: Basic Center Grant	93.623			-	119,623
Total Basic Center Grant				-	722,324

See accompanying Notes to Schedule of Expenditures of Federal Awards.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services (Continued)					
Aging Cluster					
Special Programs for the Aging-Title III, PartC-Nutrition Services	93.045	Land of the Dancing Sky	314-19-00C1-110/314-20-00C1-110	$ -	$ 278,138
Special Programs for the Aging-Title III, PartC-Nutrition Services	93.045	Central MN Council on Aging	315-19-03C1-002/315-20-03C1-002	-	163,145
Special Programs for the Aging-Title III, PartC-Nutrition Services	93.045	MN River Agency on Aging	316-19-00C1-042-E89-02/316-19-00C2-043-E89-02/316-20-00C1-042-E89-04/316-20-00C2-043-E89-04	-	312,093
Nutrition Services Incentive Program	93.053	Land of the Dancing Sky	314-19-00C1-110/314-20-00C1-110	-	771,154
Nutrition Services Incentive Program	93.053	Central MN Council on Aging	315-19-03C1-002/315-20-03C1-002	-	509,352
Nutrition Services Incentive Program	93.053	MN River Agency on Aging	316-19-00C1-042-E89-02/316-19-00C2-043-E89-02/316-20-00C1-042-E89-04/316-20-00C2-043-E89-04	-	1,751,361
Total Aging Cluster				-	3,785,243
National Family Caregiver Support	93.052	MN River Agency on Aging	316-19-003E-028-00E/316-20-003E-028-00E	-	154,364
National Family Caregiver Support	93.052	Central MN Council on Aging	315-19-003E-001/315-20-003E-001	-	61,864
National Family Caregiver Support	93.052	Arrowhead Regional Development Commission	303-19-003E-612	-	4,750
National Family Caregiver Support	93.052	Metropolitan Area Agency on Aging	311-19-003E-300/311-20-003E-300	-	66,271
National Family Caregiver Support	93.052	Land of the Dancing Sky	314-19-003E-104A/314-20-003E-104	-	139,029
Total National Family Caregiver Support				-	426,278
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	MN Dept. of Health	1701MNPREP	-	88,425
Promoting Safe and Stable Families, Kinship Navigator Program	93.556	MN Dept. of Human Services	GRK%180687	-	24,982
Refugee and Entrant Assistance-State Administered Programs	93.566	International Institute of MN	GRK%167581	-	75,000
Refugee and Entrant Assistance-State Administered Programs	93.566	MN Dept. of Human Services	GRK%167577	-	453,962
Refugee and Entrant Assistance-State Administered Programs	93.566	MN Dept. of Human Services	GRK% 166727	-	35,149
Refugee and Entrant Assistance-State Administered Programs	93.566	Minnesota Council of Churches	GRK%166891	-	50,000
Total Refugee and Entrant Assistance-State Administered Programs				-	639,093
Low-Income Home Energy Assistance	93.568	MN Dept. of Commerce	GRK%165616	-	481,013
Community Services Block Grant	93.569	Community Action of Hennepin County	003-19	-	123,707
Refugee and Entrant Assistance-Discretionary Grant	93.576	Lutheran Immigration and Refugee Services	90RP0113-04-00	-	125,639
Refugee and Entrant Assistance-Discretionary Grant	93.576	Lutheran Immigration and Refugee Services	90RP0113-04-02	-	38,708
Total Refugee and Entrant Assistance-Discretionary Grant				-	164,348
Chafee Education and Training Vouchers Program	93.599	MN Dept. of Human Services	GRK%157729	-	823,186
Adoption and Legal Guardianship Incentive Payments Program	93.603	MN Dept. of Human Services	GRK%142652	-	20,716
Adoption Assistance	93.659	MN Dept. of Human Services	GRK%142334/GRK%142348	-	614,748
Voluntary Agency Matching Grant Program	93.567	Lutheran Immigration and Refugee Services	2002MDRVMG	-	128,715

See accompanying Notes to Schedule of Expenditures of Federal Awards.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Health and Human Services (Continued)					
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158720	$ -	$ 92,077
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158721	-	105,409
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158719	-	222,764
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158722	-	50,541
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158708	-	81,540
Chafee Foster Care Independence Program	93.674	MN Dept. of Human Services	GRK%158713	-	137,004
Total Chafee Foster Care Independent Program				-	689,336
Residential Shelter/Transitional Foster Care for Unaccompanied Alien Children	93.676	Lutheran Immigration and Refugee Services	90ZU0318-01-00	-	39,004
Opioid State Targeted Response	93.788	MN Dept. of Human Services	GRK%159499	-	84,140
Aging Research	93.866	University of Minnesota	1R61AG061903-01	-	81,637
Block Grants for Community Mental Health Services Covid-19	93.958	MN Dept. of Human Services	GRK%181351	-	2,641
Total Department of Health and Human Services				-	10,844,115
Corporation for National and Community Service					
Foster Grandparent / Senior Companion Cluster					
Foster Grandparent	94.011			-	925,604
Senior Companion	94.016			-	546,292
Total Foster Grandparent / Senior Companion Cluster				-	1,471,895
AmeriCorps	94.006	University of Maryland		-	152,912
Total Corporation for National and Community Service			43680-0019	-	1,624,807
Department of Homeland Security					
Emergency Food and Shelter National Board Program	97.024	United Way	501400-009/499600-017	-	9,250
Emergency Food and Shelter National Board Program	97.024	United Way	503200-003	-	24,093
Emergency Food and Shelter National Board Program	97.024	United Way	50000-006	-	15,071
Emergency Food and Shelter National Board Program	97.024	United Way	485917-018	-	16,492
Emergency Food and Shelter National Board Program	97.024	United Way	485913.001	-	1,000
Total Department of Homeland Security				-	65,906
Total Expenditures of Federal Awards				$ 5,531	$ 14,956,168

See accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The purpose of the schedule of expenditures of federal awards (the Schedule) is to present a summary of those activities of Lutheran Social Service of Minnesota and Affiliates (the Organization) that have been financed by the United States Government (federal awards). Federal awards received directly from federal agencies are included in the Schedule.

Additionally, all federal awards passed through from other entities have been included on the Schedule. Although the Organization is required to match certain grants, as defined in the grants, no such matching is included in the Schedule.

The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, statement of activities, or cash flows of the Organization.

NOTE B SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has a negotiated indirect cost rate that they use rather than the 10 percent de minimis rate under the Uniform Guidance.

NOTE C IN-KIND SUPPORT

The following shows the amount of in-kind support for volunteer hours obtained for the Senior Nutrition programs, CFDA numbers 93.045/93.053, which is required by the grant.

	Congregate	Home Delivered	Total
Land of the Dancing Sky AAA	$ 69,607	$ 17,368	$ 86,975
Central MN Council on Aging	14,345	74,202	88,547
MN River Area Agency on Aging	28,351	41,093	69,444
Total	$ 112,303	$ 132,663	$ 244,966

NOTE E LOAN OUTSTANDING

The balance of the loan outstanding for the HOME Investment Partnership Program, CFDA number 14.239, as of September 30, 2020 is $754,500.

LUTHERAN SOCIAL SERVICE OF MINNESOTA AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2020

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies) identified? ____ yes __x__ none reported

3. Noncompliance material to financial statements noted? ____ yes __x__ no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? ____ yes __x__ no
   - Significant deficiency(ies)? ____ yes __x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ____ yes __x__ no

Identification of Major Federal Programs

Name of Federal Program	CFDA Number
Aging Cluster	93.045 / 93.053
Chafee Education and Training Vouchers Program	93.599
Continuum of Care Program - Hearth Act	14.267

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? __x__ yes ____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).