

LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS

COMBINED AUDITED FINANCIAL STATEMENTS  
AUGUST 31, 2010 and 2009

DUNHAM, AUKAMP & RHODES, PLC  
Certified Public Accountants  
Chantilly, Virginia

LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS

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**INDEPENDENT AUDITORS' REPORT**

Boards of Directors  
Lutheran Volunteer Corps and  
Lutheran Service Corps  
Washington, DC

We have audited the accompanying combined statement of financial position of Lutheran Volunteer Corps and Lutheran Service Corps, as of August 31, 2010 and 2009, and the related combined statements of activities, cash flows and functional expenses for the years then ended. These combined financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Volunteer Corps and Lutheran Service Corps, as of August 31, 2010 and 2009 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Dunham, Aukamp & Rhodes, PLC*

Certified Public Accountants  
Chantilly, Virginia

December 17, 2010

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**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**COMBINED STATEMENTS OF ACTIVITIES  
For the Years Ended August 31, 2010 and 2009**

|  | 2010              |                        |                   |                        |                   | 2009              |                        |                   |                        |                   |  |
|--|-------------------|------------------------|-------------------|------------------------|-------------------|-------------------|------------------------|-------------------|------------------------|-------------------|--|
|  | LVC               |                        | LSC               |                        | Total             | LVC               |                        | LSC               |                        | Total             |  |
|  | Unrestricted      | Temporarily Restricted | Unrestricted      | Temporarily Restricted |                   | Unrestricted      | Temporarily Restricted | Unrestricted      | Temporarily Restricted |                   |  |
| <b>Changes in Net Assets</b>           |                   |                        |                   |                        |                   |                   |                        |                   |                        |                   |  |
| Revenues and Support                   |                   |                        |                   |                        |                   |                   |                        |                   |                        |                   |  |
| Volunteer housing income               | \$ 601,217        | \$ -                   | \$ 17,125         | \$ -                   | \$ 618,342        | \$ 556,770        | \$ -                   | \$ 15,258         | \$ -                   | \$ 572,028        |  |
| Agency placement fees                  | 459,945           | -                      | -                 | -                      | 459,945           | 346,053           | -                      | -                 | -                      | 346,053           |  |
| Contributions                          | 297,224           | -                      | 25,059            | 1,332                  | 323,615           | 286,074           | -                      | 34,736            | -                      | 320,810           |  |
| Foundation grants                      | 91,850            | -                      | -                 | -                      | 201,000           | 106,020           | -                      | -                 | -                      | 106,020           |  |
| Volunteer health fees                  | 164,540           | -                      | -                 | -                      | 164,540           | 59,559            | -                      | -                 | 46,441                 | 106,000           |  |
| Volunteer travel income                | 79,060            | -                      | -                 | -                      | 79,060            | 61,500            | -                      | -                 | -                      | 61,500            |  |
| Special events, net of direct costs    | 9,042             | -                      | 26,276            | -                      | 35,318            | -                 | -                      | 26,592            | -                      | 26,592            |  |
| Other revenue                          | 17,556            | -                      | -                 | -                      | 17,556            | 3,909             | -                      | -                 | -                      | 3,909             |  |
| Contributed services                   | 9,019             | -                      | -                 | -                      | 9,019             | 22,300            | -                      | -                 | -                      | 22,300            |  |
| Investment income                      | 885               | -                      | 5,195             | -                      | 6,080             | (5,287)           | -                      | 967               | -                      | (4,320)           |  |
| Intercompany transfer                  | 43,795            | -                      | (43,795)          | -                      | -                 | 8,000             | -                      | (8,000)           | -                      | -                 |  |
| Net assets released from restriction   | 46,441            | -                      | -                 | -                      | -                 | -                 | -                      | -                 | -                      | -                 |  |
| Total Revenues and Support             | <u>1,820,574</u>  | <u>62,709</u>          | <u>29,860</u>     | <u>1,332</u>           | <u>1,914,475</u>  | <u>1,444,898</u>  | <u>46,441</u>          | <u>69,553</u>     | <u>46,441</u>          | <u>1,560,892</u>  |  |
| Expenses                               |                   |                        |                   |                        |                   |                   |                        |                   |                        |                   |  |
| Program expenses                       | 1,598,054         | -                      | 16,273            | -                      | 1,614,327         | 1,236,598         | -                      | 60,016            | -                      | 1,296,614         |  |
| Management and general                 | 80,807            | -                      | 7,436             | -                      | 88,243            | 50,872            | -                      | 16,576            | -                      | 67,448            |  |
| Fundraising                            | 128,488           | -                      | 2                 | -                      | 128,490           | 111,630           | -                      | 2,241             | -                      | 113,871           |  |
| Total Expenses                         | <u>1,807,349</u>  | <u>-</u>               | <u>23,711</u>     | <u>-</u>               | <u>1,831,060</u>  | <u>1,399,100</u>  | <u>-</u>               | <u>78,833</u>     | <u>-</u>               | <u>1,477,933</u>  |  |
| <b>Change in Net Assets</b>            | 13,225            | 62,709                 | 6,149             | 1,332                  | 83,415            | 45,798            | 46,441                 | (9,280)           | 46,441                 | 82,959            |  |
| <b>Net Assets at Beginning of Year</b> | 192,993           | 46,441                 | 104,415           | -                      | 343,849           | 147,195           | -                      | 113,695           | -                      | 260,890           |  |
| <b>Net Assets at End of Year</b>       | <u>\$ 206,218</u> | <u>\$ 109,150</u>      | <u>\$ 110,564</u> | <u>\$ 1,332</u>        | <u>\$ 427,264</u> | <u>\$ 192,993</u> | <u>\$ 46,441</u>       | <u>\$ 104,415</u> | <u>\$ 46,441</u>       | <u>\$ 343,849</u> |  |

The accompanying notes are an integral part of these financial statements.

**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**COMBINED STATEMENTS OF CASH FLOWS  
For the Years Ended August 31, 2010 and 2009**

|   | <u>2010</u>           | <u>2009</u>           |
|---|-----------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>   |                       |                       |
| Change in net assets  | \$ 83,415             | \$ 82,959             |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities |                       |                       |
| Depreciation  | 4,266                 | 4,173                 |
| Loss on investments   | -                     | 9,254                 |
| Transfer cash from combined entity  | -                     | 22,932                |
| Changes in operating assets and liabilities   |                       |                       |
| Increase in accounts receivable   | (3,556)               | (60,935)              |
| Decrease (increase) in prepaid expenses   | 17,793                | (31,085)              |
| Increase in rental deposits   | (7,700)               | (8,250)               |
| (Decrease) increase in accounts payable and accrued liabilities                               | (13,806)              | 77,350                |
| Increase in deferred revenues   | 171,528               | 54,978                |
|   | <u>251,940</u>        | <u>151,376</u>        |
| <br><b>Cash Flows from Investing Activities</b>   |                       |                       |
| Purchases of property and equipment   | (6,412)               | (3,420)               |
| Proceeds on sale of investments   | -                     | 20,000                |
| Purchases of investments  | (6,976)               | (1,988)               |
|   | <u>(13,388)</u>       | <u>14,592</u>         |
| <br>Net cash (used in) provided by investing activities                                       |                       |                       |
|   | <u>(13,388)</u>       | <u>14,592</u>         |
| <br><b>Change in cash and cash equivalents</b>  | <br>238,552           | <br>165,968           |
| <br><b>Cash and cash equivalents, beginning of year</b>                                       | <br><u>355,690</u>    | <br><u>189,722</u>    |
| <br><b>Cash and cash equivalents, end of year</b>   | <br><u>\$ 594,242</u> | <br><u>\$ 355,690</u> |

The accompanying notes are an integral part of these financial statements.

**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended August 31, 2010**

|   | Program Services |           | Management & General |          | Fundraising |      | Total        |
|---|------------------|-----------|----------------------|----------|-------------|------|--------------|
|   | LVC              | LSC       | LVC                  | LSC      | LVC         | LSC  |              |
| Expenses                                |                  |           |                      |          |             |      |              |
| Salaries                                | \$ 473,912       | \$ -      | \$ 29,393            | \$ -     | \$ 81,772   | \$ - | \$ 585,077   |
| Volunteer housing                       | 505,404          | 8,309     | -                    | -        | -           | -    | 513,713      |
| Volunteer health insurance              | 147,714          | -         | -                    | -        | -           | -    | 147,714      |
| Employee benefits                       | 115,058          | 32        | 6,924                | 8        | 11,733      | 2    | 133,757      |
| Retreats, workshops, and special events | 114,189          | 3,273     | 45                   | -        | 4,031       | -    | 121,538      |
| Professional services                   | 43,877           | -         | 14,200               | -        | 6,514       | -    | 64,591       |
| Travel                                  | 43,515           | -         | 8,669                | 3,667    | 3,064       | -    | 58,915       |
| Volunteer travel                        | 50,854           | 1,440     | -                    | -        | -           | -    | 52,294       |
| Office rent                             | 27,118           | -         | 1,430                | -        | 1,430       | -    | 29,978       |
| Photocopying and printing               | 13,987           | -         | 6,794                | 941      | 7,013       | -    | 28,735       |
| Other expenses                          | 14,343           | -         | 5,241                | 771      | 4,664       | -    | 25,019       |
| Postage                                 | 9,489            | -         | 197                  | 723      | 4,730       | -    | 15,139       |
| Training                                | 9,783            | -         | 440                  | -        | 3,438       | -    | 13,661       |
| Insurance                               | 9,986            | 2,193     | 1,273                | -        | -           | -    | 13,452       |
| Telephone                               | 11,675           | -         | 501                  | -        | 99          | -    | 12,275       |
| Supplies                                | 4,971            | -         | 2,416                | 1,326    | -           | -    | 8,713        |
| Depreciation                            | -                | 1,026     | 3,240                | -        | -           | -    | 4,266        |
| Equipment                               | 2,179            | -         | 44                   | -        | -           | -    | 2,223        |
| Total Expenses                          | \$ 1,598,054     | \$ 16,273 | \$ 80,807            | \$ 7,436 | \$ 128,488  | \$ 2 | \$ 1,831,060 |

The accompanying notes are an integral part of these financial statements.

**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended August 31, 2009**

|   | Program Services    |                  | Management & General |                  | Fundraising       |                 | Total               |
|---|---------------------|------------------|----------------------|------------------|-------------------|-----------------|---------------------|
|   | LVC                 | LSC              | LVC                  | LSC              | LVC               | LSC             |                     |
| Expenses                                |                     |                  |                      |                  |                   |                 |                     |
| Salaries                                | \$ 369,152          | \$ 31,021        | \$ 17,734            | \$ 8,272         | \$ 80,540         | \$ 2,068        | \$ 508,787          |
| Volunteer housing                       | 446,741             | 17,852           | -                    | -                | -                 | -               | 464,593             |
| Volunteer health insurance              | 96,107              | 3,454            | -                    | -                | -                 | -               | 99,561              |
| Retreats, workshops, and special events | 73,257              | 458              | 612                  | -                | 4,232             | -               | 78,559              |
| Employee benefits                       | 62,015              | 2,597            | 5,405                | 693              | 13,712            | 173             | 84,595              |
| Volunteer travel                        | 49,005              | 3,075            | -                    | -                | -                 | -               | 52,080              |
| Travel                                  | 36,911              | -                | 8,462                | 4,532            | 14                | -               | 49,919              |
| Professional services                   | 13,213              | -                | 11,572               | 920              | 3,250             | -               | 28,955              |
| Photocopying and printing               | 20,208              | -                | 1,310                | 660              | 5,753             | -               | 27,931              |
| Office rent                             | 26,456              | -                | 1,210                | -                | 1,210             | -               | 28,876              |
| Postage                                 | 10,703              | -                | 279                  | 883              | 2,831             | -               | 14,696              |
| Insurance                               | 14,071              | -                | -                    | -                | -                 | -               | 14,071              |
| Telephone                               | 11,252              | -                | 279                  | 205              | -                 | -               | 11,736              |
| Supplies                                | 3,631               | -                | 193                  | 411              | 88                | -               | 4,323               |
| Depreciation                            | 3,147               | 1,026            | -                    | -                | -                 | -               | 4,173               |
| Other expenses                          | 323                 | 533              | 2,239                | -                | -                 | -               | 3,095               |
| Equipment                               | -                   | -                | 1,577                | -                | -                 | -               | 1,577               |
| Training                                | 406                 | -                | -                    | -                | -                 | -               | 406                 |
| <b>Total Expenses</b>                   | <b>\$ 1,236,598</b> | <b>\$ 60,016</b> | <b>\$ 50,872</b>     | <b>\$ 16,576</b> | <b>\$ 111,630</b> | <b>\$ 2,241</b> | <b>\$ 1,477,933</b> |

The accompanying notes are an integral part of these financial statements.

**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1 - Organization and Summary of Accounting Policies**

Lutheran Volunteer Corps (LVC) was founded in Washington, D.C. by Luther Place Memorial Church in 1979. Lutheran Volunteer Corps was incorporated as a non-profit corporation on September 1, 2003. Lutheran Service Corps (LSC) is a non-profit corporation founded in Nebraska in 1992. Lutheran Volunteer Corps and Lutheran Service Corps are domestic volunteer service programs for men and women who want to work for social justice, live in an intentional community with other volunteers, experience a more simplified and sustainable lifestyle, and explore spirituality. Revenues consist principally of participating agency fees and contributions.

A summary of the corporations' significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

- (a) Basis of Presentation – The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expense is recognized when the obligation is incurred.
- (b) Principles of Combination – The combined financial statements include the accounts of Lutheran Volunteer Corps and Lutheran Service Corps, which are considered organizations under common control. All intercompany transactions have been eliminated.
- (c) Financial Statement Presentation – The financial statement presentation follows the recommendations of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-For-Profit Organizations*. Under FASB Statement No. 117 the organizations are required to report information regarding their financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The organizations do not have any permanently restricted net assets.

Unrestricted net assets – includes unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the general operation of the organizations.

Temporarily restricted net assets – includes revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

- (d) Support and Expenses – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The organizations reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**LUTHERAN VOLUNTEER CORPS  
AND  
LUTHERAN SERVICE CORPS**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1 - Organization and Summary of Accounting Policies (Continued)**

- (e) Statements of Cash Flows – The organizations consider substantially all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.
- (f) Investments – Investments are recorded at market value. Realized and unrealized gains and losses are included in investment income in the statements of activities.
- (g) Property and Equipment - Property and equipment in excess of \$1,500 are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, generally three years for equipment and thirty-nine years for buildings. Expenditures for maintenance and repairs are charged against income as incurred; betterments that increase the value or materially extend the life of the related assets are capitalized.
- (h) Income Taxes – LVC and LSC are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on all income other than unrelated business income. Accordingly, no provision for income tax has been provided in the accompanying financial statements. Both LVC and LSC have been determined not to be private foundations as defined under Section 509(a).
- (i) Uncertain Tax Positions – The Organizations have adopted the provisions of Financial Accounting Standards (FASB) interpretation No. 48 “Accounting for Uncertainty in Income Taxes.” The Interpretation provides clarification on accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement attribute for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. Adoption did not have a significant impact on the balance sheet or statement of operations, and as of August 31, 2010, the organizations have no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The tax years subject to examination by the taxing authorities are the years ended August 31, 2007 through 2009.
- (j) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**LUTHERAN VOLUNTEER CORPS  
AND  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1 - Organization and Summary of Accounting Policies (Continued)**

- (k) Concentrations of Credit and Market Risk - Financial instruments that potentially expose the organizations to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions which, at times, may exceed federally insured limits. The organizations monitor these balances and do not believe they represent significant credit risks. Credit exposure is limited at any one institution. The organizations have not experienced any losses on cash equivalents. The organizations' investments do not represent significant concentrations of market risk as the investment portfolio is adequately diversified amongst issuers and industries.
- (l) Contributed Goods and Services – Contributed goods are recorded as income and expense at the time the goods are received, which is normally also the time they are placed into service or distributed. Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, or would have been purchased if not provided by donation, require special skills, and are provided by individuals possessing such specialized skills.
- (m) Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- (n) Advertising Costs – Advertising costs are expensed as incurred.
- (o) Reclassifications – Certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

**NOTE 2 – Cash and Cash Equivalents**

Cash and cash equivalents consisted of the following at August 31, 2010 and 2009:

|                                 | <u>2010</u>      | <u>2009</u>      |
|---------------------------------|------------------|------------------|
| Checking accounts – LVC         | \$556,572        | \$322,834        |
| Checking accounts – LSC         | <u>37,670</u>    | <u>32,856</u>    |
| Total Cash and Cash Equivalents | <u>\$594,242</u> | <u>\$355,690</u> |

**LUTHERAN VOLUNTEER CORPS  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3 – Investments**

Investments are stated at market value and consisted of the following at August 31, 2010 and 2009:

| <u>LVC</u>              | <u>2010</u>      |                  | <u>2009</u>      |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | <u>Cost</u>      | <u>Market</u>    | <u>Cost</u>      | <u>Market</u>    |
| Mutual funds            | \$ -             | \$ -             | \$137,411        | \$121,445        |
| Pooled investment trust | 111,592          | 109,741          | -                | -                |
| Money market funds      | 13,493           | 13,493           | -                | -                |
| <br><u>LSC</u>          |                  |                  |                  |                  |
| Corporate bonds         | 24,281           | 24,983           | 24,281           | 20,798           |
| Money market funds      | <u>16,127</u>    | <u>16,127</u>    | <u>15,125</u>    | <u>15,125</u>    |
| Total                   | <u>\$165,493</u> | <u>\$164,344</u> | <u>\$176,817</u> | <u>\$157,368</u> |

Components of investment income included the following:

|                        | <u>2010</u>    | <u>2009</u>      |
|------------------------|----------------|------------------|
| Dividends and interest | \$7,255        | \$ 4,934         |
| Losses on investments  | <u>(1,175)</u> | <u>(9,254)</u>   |
| Total                  | <u>\$6,080</u> | <u>\$(4,320)</u> |

**NOTE 4 – Property and Equipment**

Property and equipment consisted of the following as of August 31, 2010 and 2009:

| <u>2010</u>                   | <u>Cost</u>     | <u>Depreciation<br/>Expense</u> | <u>Accumulated<br/>Depreciation</u> |
|-------------------------------|-----------------|---------------------------------|-------------------------------------|
| Building - LSC                | \$50,000        | \$1,026                         | \$15,385                            |
| Furniture and equipment - LVC | <u>31,328</u>   | <u>3,240</u>                    | <u>24,263</u>                       |
| Total                         | <u>\$81,328</u> | <u>\$4,266</u>                  | <u>\$39,648</u>                     |
| <br><u>2009</u>               |                 |                                 |                                     |
| Building - LSC                | \$50,000        | \$1,026                         | \$14,359                            |
| Furniture and equipment - LVC | <u>24,916</u>   | <u>3,147</u>                    | <u>21,023</u>                       |
| Total                         | <u>\$74,916</u> | <u>\$4,173</u>                  | <u>\$35,382</u>                     |

**LUTHERAN VOLUNTEER CORPS  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 5 – Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at August 31, 2010 and 2009:

|                                | <u>2010</u>          | <u>2009</u>         |
|--------------------------------|----------------------|---------------------|
| <u>LVC</u>                     |                      |                     |
| Thrivent Grant                 | \$ 50,400            | \$ -                |
| ELCA Elderly Endowment         | 58,750               | -                   |
| Fund for Theological Education | -                    | 46,441              |
| <u>LSC</u>                     |                      |                     |
| Hillstrom House Maintenance    | <u>1,332</u>         | <u>-</u>            |
| <br>Total                      | <br><u>\$110,482</u> | <br><u>\$46,441</u> |

Temporarily restricted assets were released from restrictions by satisfying either the stated time or purpose restrictions as follows:

|                                | <u>2010</u>     | <u>2009</u> |
|--------------------------------|-----------------|-------------|
| Fund for Theological Education | <u>\$46,441</u> | <u>\$ -</u> |

**NOTE 6 – Board Restricted Funds**

The Board Restricted Funds consist of money designated by the Lutheran Volunteer Corps Board of Directors for future purposes. Because of a lack of donor restrictions, these funds are considered unrestricted in accordance with FASB Statement No. 117. However, LVC wishes to disclose these funds separately to reflect the Board's desire that these funds be retained and invested to support long-term objectives of the organization. These Board Restricted Funds consisted of the following as of August 31, 2010 and 2009:

|                                     | <u>2010</u>     | <u>2009</u>     |
|-------------------------------------|-----------------|-----------------|
| Vision Fund - beginning of the year | \$57,107        | \$59,400        |
| Investment income                   | 1,524           | 1,374           |
| Decrease in value of assets         | <u>(748)</u>    | <u>(3,667)</u>  |
| Vision Fund - end of year           | <u>\$57,883</u> | <u>\$57,107</u> |

**NOTE 7 – Contingencies and Commitments**

The Lutheran Volunteer Corps entered into various lease agreements for office space and residential facilities for volunteers. Future minimum lease payments for all leases are as follows:

|                        |                  |
|------------------------|------------------|
| Year Ending August 31, |                  |
| 2011                   | <u>\$482,692</u> |
| Total                  | <u>\$482,692</u> |

Rent expense for the years ended August 31, 2010 and 2009, was \$453,358 and \$381,490, respectively.

**LUTHERAN VOLUNTEER CORPS  
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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 8 – Endowment Funds**

LVC's endowment consists of a single fund designated by the Board of Directors to function as an endowment to generate annual income for operating and other expenses. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. A Board resolution created the endowment fund with an initial funding amount of \$67,000. However, as that resolution did not require the endowment principal to be maintained at a specified level LVC reports the board designated endowment fund net assets at the current value of the related investment account balance.

Endowment net asset composition by type of fund as of August 31, 2010 and 2009 is as follows:

|                                     |                 |                 |
|-------------------------------------|-----------------|-----------------|
|                                     | <u>2010</u>     | <u>2009</u>     |
| LVC Board designated endowment fund | <u>\$65,351</u> | <u>\$62,768</u> |

Changes in endowment net asset composition for the years ended August 31, 2010 and 2009 is as follows:

|  |                 |                 |
|--|-----------------|-----------------|
|  | <u>2010</u>     | <u>2009</u>     |
| Endowment net assets - beginning of the year | \$62,768        | \$67,000        |
| Investment income                            | 3,166           | 1,470           |
| Net depreciation                             | <u>(583)</u>    | <u>(5,702)</u>  |
| Endowment net assets - end of year           | <u>\$65,351</u> | <u>\$62,768</u> |

Return Objectives and Risk Parameters – The investment decisions are made by the finance committee of the board of directors. The investments are structured to generate annual income for operating expenses. The investment objectives are to provide growth, capital preservation, diversification to reduce risk and liquidity to fund draws. Allowable investment vehicles include high quality equity, bond and other fixed income mutual funds. The target asset allocation is 60-80% equities and 20-40% fixed income.

Strategies Employed for Achieving Objectives – To satisfy its rate-of-return objectives, LVC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). LVC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives with prudent risk constraints.

Spending Policy – LVC has a policy of appropriating for distributions each year 4-5 percent of its endowment fund's average fair value over the prior three years as of the end of the calendar year preceding the time of the budget calculation. In establishing this policy, LVC considered the long-term expected return on its endowment. Accordingly, over the long-term, LVC expects the current spending policy to allow its endowment to grow at an average rate of 4-5 percent annually. This is consistent with LVC's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 9 – Business Combination**

Effective December 1, 2008 LVC and LSC began operating under common control. It was determined by the Boards of Directors that combined financial statements were desirable to show the overall financial position and results of operation of the organizations.

**NOTE 10 – Evaluation of Subsequent Events**

The organizations have evaluated subsequent events through February 21, 2011, the date which the financial statements were available to be issued.