

LUTHERAN WORLD RELIEF, INCORPORATED

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

SEPTEMBER 30, 2010

LUTHERAN WORLD RELIEF, INCORPORATED

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TAIT, WELLER & BAKER LLP
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Lutheran World Relief, Incorporated
Baltimore, Maryland

We have audited the accompanying statement of financial position of Lutheran World Relief, Incorporated (the "Organization") as of September 30, 2010, and the related statements of activities and changes in net assets, of functional expenses, and of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Lutheran World Relief, Incorporated's 2009 financial statements and, in our report dated January 5, 2010, we expressed an unqualified opinion on those financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Lutheran World Relief, Incorporated as of September 30, 2010, the changes in its net assets, its functional expenses and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
December 22, 2010

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 8,199,537	\$ 6,952,598
Grants receivable	1,307,386	601,949
Miscellaneous receivables and advances to overseas offices	908,665	845,630
Contributions receivable (<i>Note 4</i>)	1,754,255	1,669,307
Marketable securities (<i>Note 2</i>)	28,121,697	25,445,426
Other investments (<i>Note 2</i>)	135,635	135,635
Purchased inventory	228,373	-
Plant and equipment – net of accumulated depreciation (<i>Note 5</i>)	472,392	522,585
Funds held by trustee (<i>Note 7</i>)	355,261	349,531
Investment in Lutheran Center Corporation (<i>Note 6</i>)	<u>3,375,490</u>	<u>3,387,759</u>
	44,858,691	39,910,420
Inventories of donated materials for distribution, at estimated values	<u>4,011,937</u>	<u>1,976,632</u>
Total assets	<u>\$48,870,628</u>	<u>\$41,887,052</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 1,027,836	\$ 1,120,769
Advances received for program purposes	1,560,053	-
Long-term debt (<i>Note 7</i>)	<u>2,687,253</u>	<u>2,770,427</u>
Total liabilities	<u>5,275,142</u>	<u>3,891,196</u>
NET ASSETS		
Unrestricted		
General (<i>Note 9</i>)	26,570,965	24,083,688
Inventories of donated materials for distribution, at estimated values	<u>4,011,937</u>	<u>1,976,632</u>
Total unrestricted net assets	30,582,902	26,060,320
Temporarily restricted (<i>Note 9</i>)	12,835,710	11,768,762
Permanently restricted (<i>Note 9</i>)	<u>176,874</u>	<u>166,774</u>
Total net assets	<u>43,595,486</u>	<u>37,995,856</u>
Total liabilities and net assets	<u>\$48,870,628</u>	<u>\$41,887,052</u>

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2010 with Comparative Totals for 2009

	2010						2009 Comparative Total
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operations	Material Aid	Total Unrestricted				
Support							
Church body support							
Evangelical Lutheran Church in America	\$ 432,000	\$ -	\$ 432,000	\$ 3,563,679	\$ -	\$ 3,995,679	\$ 3,910,085
Lutheran Church – Missouri Synod	<u>759,375</u>	<u>-</u>	<u>759,375</u>	<u>508,125</u>	<u>-</u>	<u>1,267,500</u>	<u>1,256,125</u>
	<u>1,191,375</u>	<u>-</u>	<u>1,191,375</u>	<u>4,071,804</u>	<u>-</u>	<u>5,263,179</u>	<u>5,166,210</u>
Contributions	7,593,990	-	7,593,990	8,045,115	10,100	15,649,205	9,414,467
Foundation grants	1,530,808	-	1,530,808	-	-	1,530,808	3,687,380
Bequests	1,682,071	-	1,682,071	190,306	-	1,872,377	1,504,287
U.S. Government grants (Note 10)							
Relief and other programs	2,303,106	-	2,303,106	-	-	2,303,106	1,872,596
Ocean freight reimbursement	99,350	-	99,350	-	-	99,350	61,850
Foods Resource Bank	303,370	-	303,370	-	-	303,370	579,202
Thrivent Financial for Lutherans	-	-	-	463,102	-	463,102	1,815
Action by Churches Together	-	-	-	91,016	-	91,016	148,614
Church World Service via CROP	-	-	-	55,608	-	55,608	-
Combined Federal Campaign	-	-	-	<u>477,215</u>	<u>-</u>	<u>477,215</u>	<u>634,994</u>
	<u>13,512,695</u>	<u>-</u>	<u>13,512,695</u>	<u>9,322,362</u>	<u>10,100</u>	<u>22,845,157</u>	<u>17,905,205</u>
Total support	<u>14,704,070</u>	<u>-</u>	<u>14,704,070</u>	<u>13,394,166</u>	<u>10,100</u>	<u>28,108,336</u>	<u>23,071,415</u>
Revenue							
Miscellaneous	<u>44,215</u>	<u>-</u>	<u>44,215</u>	<u>-</u>	<u>-</u>	<u>44,215</u>	<u>29,118</u>
Total revenue	<u>44,215</u>	<u>-</u>	<u>44,215</u>	<u>-</u>	<u>-</u>	<u>44,215</u>	<u>29,118</u>
Total support and revenue – cash	<u>14,748,285</u>	<u>-</u>	<u>14,748,285</u>	<u>13,394,166</u>	<u>10,100</u>	<u>28,152,551</u>	<u>23,100,533</u>
Support-In-Kind							
Inventories of donated materials for distribution, at estimated values	<u>-</u>	<u>12,744,499</u>	<u>12,744,499</u>	<u>-</u>	<u>-</u>	<u>12,744,499</u>	<u>10,782,813</u>
Net assets released from restrictions (Note 9)	<u>12,327,218</u>	<u>-</u>	<u>12,327,218</u>	<u>(12,327,218)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>27,075,503</u>	<u>12,744,499</u>	<u>39,820,002</u>	<u>1,066,948</u>	<u>10,100</u>	<u>40,897,050</u>	<u>33,883,346</u>

Expenses

Program Services							
International Programs, Relief and Development (including in-kind shipments of \$10,709,194 and \$11,183,663 in 2010 and 2009, respectively)	19,814,350	10,709,194	30,523,544	-	-	30,523,544	30,805,188
Faith in Action (Education and Public Policy)	3,123,530	-	3,123,530	-	-	3,123,530	2,498,208
Organizational Effectiveness	-	-	-	-	-	-	2,510
Total program services	<u>22,937,880</u>	<u>10,709,194</u>	<u>33,647,074</u>	<u>-</u>	<u>-</u>	<u>33,647,074</u>	<u>33,305,906</u>
Supporting Services							
General management	1,793,432	-	1,793,432	-	-	1,793,432	2,112,161
Fundraising	<u>1,666,240</u>	<u>-</u>	<u>1,666,240</u>	<u>-</u>	<u>-</u>	<u>1,666,240</u>	<u>1,122,476</u>
Total supporting services	<u>3,459,672</u>	<u>-</u>	<u>3,459,672</u>	<u>-</u>	<u>-</u>	<u>3,459,672</u>	<u>3,234,637</u>
Total expenses	<u>26,397,552</u>	<u>10,709,194</u>	<u>37,106,746</u>	<u>-</u>	<u>-</u>	<u>37,106,746</u>	<u>36,540,543</u>
Excess (deficiency) of income over expenses	677,951	2,035,305	2,713,256	1,066,948	10,100	3,790,304	(2,657,197)
Other Changes In Net Assets							
Investment return net of amounts designated for current operations (<i>Note 2</i>)	<u>1,809,326</u>	<u>-</u>	<u>1,809,326</u>	<u>-</u>	<u>-</u>	<u>1,809,326</u>	<u>1,094,021</u>
Change in net assets	2,487,277	2,035,305	4,522,582	1,066,948	10,100	5,599,630	(1,563,176)
Net Assets							
Beginning of year	<u>24,083,688</u>	<u>1,976,632</u>	<u>26,060,320</u>	<u>11,768,762</u>	<u>166,774</u>	<u>37,995,856</u>	<u>39,559,032</u>
End of year	<u>\$26,570,965</u>	<u>\$ 4,011,937</u>	<u>\$30,582,902</u>	<u>\$ 12,835,710</u>	<u>\$176,874</u>	<u>\$43,595,486</u>	<u>\$37,995,856</u>

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2010 with Summarized Information for 2009

	PROGRAM SERVICES				SUPPORTING SERVICES				TOTAL EXPENSES	
	International Programs, Relief And Development	Faith In Action (Education And Public Policy)	2010 Total	2009 Comparative Total	General Management	Fundraising	2010 Total	2009 Comparative Total	2010 Total	2009 Comparative Total
Salaries	\$ 2,698,071	\$1,064,341	\$ 3,762,412	\$ 3,698,874	\$ 945,039	\$ 396,391	\$1,341,430	\$1,453,521	\$ 5,103,842	\$ 5,152,395
Employee health, retirement and other benefits	910,266	257,024	1,167,290	921,427	236,502	91,799	328,301	308,793	1,495,591	1,230,220
Payroll taxes	96,705	72,714	169,419	163,663	65,140	26,904	92,044	99,438	261,463	263,101
Total salaries and related expenses	3,705,042	1,394,079	5,099,121	4,783,964	1,246,681	515,094	1,761,775	1,861,752	6,860,896	6,645,716
Retained services	548,605	925,657	1,474,262	1,262,452	234,397	240,155	474,552	614,850	1,948,814	1,877,302
Program materials and other supplies	105,994	26,324	132,318	76,360	9,490	5,330	14,820	13,489	147,138	89,849
Communications	112,627	20,741	133,368	126,686	10,040	5,476	15,516	16,422	148,884	143,108
Postage	8,158	54,301	62,459	46,695	4,188	163,928	168,116	78,972	230,575	125,667
Occupancy costs										
Cost share, including interest/rent	171,041	160,440	331,481	322,344	91,381	49,798	141,179	140,841	472,660	463,185
Overseas	139,343	-	139,343	125,564	-	-	-	-	139,343	125,564
Insurance	36,155	-	36,155	36,473	27,560	-	27,560	27,728	63,715	64,201
Equipment rental, repairs and capital outlay	150,052	33,675	183,727	188,633	14,291	21,071	35,362	34,897	219,089	223,530
Travel and meetings	864,593	193,038	1,057,631	998,730	146,085	50,515	196,600	205,990	1,254,231	1,204,720
Printing, publications and film	18,157	168,590	186,747	85,739	262	294,661	294,923	144,561	481,670	230,300
Membership fees	38,074	10,490	48,564	46,734	7,355	41,505	48,860	47,320	97,424	94,054
Bank and merchant fees	75	-	75	360	124,803	176,553	301,356	153,139	301,431	153,499
Material aid										
Donated materials										
(blankets and quilts, medical, etc.)	10,709,194	-	10,709,194	11,183,663	-	-	-	-	10,709,194	11,183,663
Purchased materials	380,445	-	380,445	49,330	-	-	-	-	380,445	49,330
Cash related costs	1,469,172	-	1,469,172	1,480,855	-	-	-	-	1,469,172	1,480,855
Grants (cash)	11,809,781	54,472	11,864,253	12,168,936	-	54,472	54,472	(2,447)	11,918,725	12,166,489
Other program costs	35,437	21,301	56,738	131,412	-	-	-	-	56,738	131,412
Miscellaneous	87,747	49,591	137,338	91,580	20,137	43,607	63,744	37,700	201,082	129,280
Reimbursement of administrative expenses	-	-	-	-	(152,182)	-	(152,182)	(157,166)	(152,182)	(157,166)
Total expenses before depreciation	30,389,692	3,112,699	33,502,391	33,206,510	1,784,488	1,662,165	3,446,653	3,218,048	36,949,044	36,424,558
Depreciation of equipment	133,852	10,831	144,683	99,396	8,944	4,075	13,019	16,589	157,702	115,985
TOTAL EXPENSES	\$30,523,544	\$3,123,530	\$33,647,074	\$33,305,906	\$1,793,432	\$1,666,240	\$3,459,672	\$3,234,637	\$37,106,746	\$36,540,543

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENTS OF CASH FLOWS

Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INCREASE IN CASH AND CASH EQUIVALENTS		
<i>Change in net assets</i>	\$ 5,599,630	\$ (1,563,176)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Support-in-kind	(12,744,499)	(10,782,813)
Material aid in-kind	10,709,194	11,183,663
Amortization of discount/premium and deferred loan costs	2,046	2,028
Depreciation	157,702	115,985
Gain on disposition of property	(4,184)	-
Equity in loss in Lutheran Center Corporation	12,269	12,455
(Gain) loss on sale of investments	(279,677)	427,348
Change in unrealized appreciation	(717,873)	(432,255)
(Increase) decrease in		
Accounts receivable – U.S. Government	(182,386)	324,613
Accounts receivable – Foundations	(523,051)	-
Miscellaneous receivables and advances to overseas offices	(68,255)	195,456
Contributions receivable	(84,948)	980,600
Purchased inventory	(228,373)	-
Funds held by trustee	(5,730)	1,936
Increase (decrease) in		
Accounts payable and accrued expenses	(92,933)	(188,078)
Advances received for program purposes	<u>1,560,053</u>	<u>-</u>
Net cash provided by operating activities	<u>3,108,985</u>	<u>277,762</u>
<i>Cash flows from investing activities</i>		
Purchase of equipment	(115,711)	(266,646)
Proceeds from sale of equipment	12,386	-
Purchase of investments	(8,458,908)	(19,456,461)
Proceeds from sale of investments	<u>6,780,187</u>	<u>22,244,132</u>
Net cash (used for) provided by investing activities	<u>(1,782,046)</u>	<u>2,521,025</u>
<i>Cash flows from financing activities</i>		
Repayment of long-term debt	<u>(80,000)</u>	<u>(77,500)</u>
Net cash used for financing activities	<u>(80,000)</u>	<u>(77,500)</u>
Net increase in cash	1,246,939	2,721,287
<i>Cash and cash equivalents</i>		
Beginning of year	<u>6,952,598</u>	<u>4,231,311</u>
End of year	<u>\$ 8,199,537</u>	<u>\$ 6,952,598</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

September 30, 2010 and 2009

(1) SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

Lutheran World Relief (“LWR”) works with partners in 35 countries to help people grow food, improve health, strengthen communities, end conflict, build livelihoods and recover from disasters.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, December 22, 2010, have been evaluated in the preparation of the financial statements.

CONCENTRATION OF CREDIT RISK

LWR occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*” identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include \$7,624,129 and \$6,625,464 of money market funds and commercial paper with maturities of 90 days or less as of September 30, 2010 and 2009, respectively.

INVESTMENTS

The fair value of investments traded on a securities exchange is determined based on market prices for these investments.

As part of its investment policy, LWR follows prohibitions to investing in specific companies practiced by the two primary supporting Church bodies to the extent such prohibitions are communicated to LWR.

PLANT, EQUIPMENT AND DEPRECIATION

Furniture and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which are 10 years for furniture and equipment, and 5 years for overseas transportation and other equipment.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

INVENTORY OF DONATED MATERIALS

Inventory of donated materials (blankets and quilts, food, medical and other supplies) is valued at their estimated fair value at date of receipt. Donated goods are removed from inventory at the time of shipment of such goods at values assigned on the date of receipt.

NET ASSETS

LWR's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LWR and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of LWR and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by LWR. Generally, the donors of these assets permit LWR to use all or part of the income earned on related investments for general or specific purposes.

CONTRIBUTIONS

LWR 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

EXCHANGE TRANSACTIONS

LWR receives grants from U.S. government agencies and certain foundations where there is a reciprocal benefit to each party. Under these transactions, LWR recognizes revenue when the related expenses are incurred. Amounts received in excess of expenses incurred are recorded as deferred revenue.

GRANTS PAYABLE

LWR does not record multi-year grants payable since each grant award is conditional, subject to ongoing review and evaluation.

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 and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

INCOME TAXES

LWR has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”), and has been classified as an organization, which is not a private foundation under Section 509(a) of the Code

LWR has reviewed the tax positions for each of the open tax years (2007 – 2009) or expected to be taken in LWR’s 2010 tax return and has concluded that there are not significant uncertain tax positions that would require recognition in the financial statements.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LWR’s audited financial statements for the year ended September 30, 2009, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2009 financial statements to conform to the 2010 presentation.

(2) INVESTMENTS

At September 30, 2010 and 2009, investments consisted of the following:

MARKETABLE SECURITIES

	2010		2009	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
U.S. Government Securities				
U.S. Treasury Notes	\$ 2,123,818	\$ 2,243,948	\$ 3,164,015	\$ 3,301,725
U.S. Government Agencies	12,076,515	12,481,776	9,314,392	9,820,138
Common Stock	4,006,603	4,265,686	3,737,705	3,847,750
Mutual funds				
Balanced	1,287,535	1,198,217	1,394,843	1,242,254
Equity	4,061,304	4,256,931	4,335,850	3,995,319
Bond	1,052,502	1,046,140	1,240,810	1,168,941
High Yield	815,358	735,773	757,388	657,774
Income	1,039,428	1,157,350	995,372	1,045,946
Other	<u>872,729</u>	<u>735,876</u>	<u>437,019</u>	<u>365,579</u>
	<u>\$27,335,792</u>	<u>\$28,121,697</u>	<u>\$25,377,394</u>	<u>\$25,445,426</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

OTHER INVESTMENTS

Other investments represent LWR's investment in Divine Chocolate, the world's first farmer-owned Fair Trade chocolate company. This investment is an integral component of LWR's program relating to Fair Trade activities. An unrealized loss of \$66,237 was included in investment income for the year ended September 30, 2009. The value remains unchanged for the year ended September 30, 2010.

INVESTMENT RETURN

The following summarizes the total investment return for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Net investment income	\$ 811,776	\$1,089,114
Net realized gain (loss)	279,677	(427,348)
Net unrealized gain	<u>717,873</u>	<u>432,255</u>
Investment income	<u>\$1,809,326</u>	<u>\$1,094,021</u>

During the fiscal year ended September 30, 2001, LWR approved a fixed rate of return ("*spending rate*") in utilizing investment income and net gains for operations. The spending rate was not utilized in either fiscal years 2010 or 2009.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

LWR utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including LWR's own assumptions in determining the fair value of investments)

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

The summary of inputs used to value LWR's Marketable Securities that are carried at fair value as of September 30, 2010 and 2009 is as follows:

	2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government Securities				
U.S. Treasury Notes	\$ -	\$ 2,243,948	\$ -	\$ 2,243,948
U.S. Government Agencies	-	12,481,776	-	12,481,776
Common Stock	4,265,686	-	-	4,265,686
Mutual funds				
Balanced	1,198,217	-	-	1,198,217
Equity	4,256,931	-	-	4,256,931
Bond	1,046,140	-	-	1,046,140
High Yield	735,773	-	-	735,773
Income	1,157,350	-	-	1,157,350
Other	-	735,876	-	735,876
Total Marketable Securities	<u>\$12,660,097</u>	<u>\$15,461,600</u>	<u>\$ -</u>	<u>\$28,121,697</u>
Investment in Divine Chocolate	<u>\$ -</u>	<u>\$ -</u>	<u>\$135,635</u>	<u>\$ 135,635</u>

	2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government Securities				
U.S. Treasury Notes	\$ -	\$ 3,301,725	\$ -	\$ 3,301,725
U.S. Government Agencies	-	9,820,138	-	9,820,138
Common Stock	3,847,750	-	-	3,847,750
Mutual funds				
Balanced	1,242,254	-	-	1,242,254
Equity	3,995,319	-	-	3,995,319
Bond	1,168,941	-	-	1,168,941
High Yield	657,774	-	-	657,774
Income	1,045,946	-	-	1,045,946
Other	-	365,579	-	365,579
Total Marketable Securities	<u>\$11,957,984</u>	<u>\$13,487,442</u>	<u>\$ -</u>	<u>\$25,445,426</u>
Investment in Divine Chocolate	<u>\$ -</u>	<u>\$ -</u>	<u>\$135,635</u>	<u>\$ 135,635</u>

The changes in investments measured at fair value for which LWR used Level 3 inputs to determine fair value are as follows:

	<u>2010</u>	<u>2009</u>
Beginning Balance	\$ 135,635	\$ 152,282
Purchases net	-	49,590
Realized and unrealized losses, net	-	(66,237)
Ending Balance	<u>\$ 135,635</u>	<u>\$ 135,635</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

(4) CONTRIBUTIONS RECEIVABLE

Contributions are recognized when the donor makes a promise to give to LWR that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions receivable include commitments and various deferred gift annuity contracts which are held by others, but for which LWR has been named the beneficiary. As of September 30, 2010 and 2009, contributions receivable consist of the following:

	<u>2010</u>	<u>2009</u>
Contributions receivable	\$ 463,244	\$ 472,049
Deferred gifts	<u>1,291,011</u>	<u>1,197,258</u>
	<u>\$ 1,754,255</u>	<u>\$ 1,669,307</u>

(5) PLANT AND EQUIPMENT

The costs of such assets were as follows:

	<u>2010</u>	<u>2009</u>
Office furniture and equipment – headquarters	\$ 846,462	\$ 771,085
Office building – overseas	104,775	104,775
Transportation and other equipment – overseas operations	<u>609,358</u>	<u>580,151</u>
	1,560,595	1,456,011
Less accumulated depreciation	<u>1,088,203</u>	<u>933,426</u>
Net value	<u>\$ 472,392</u>	<u>\$ 522,585</u>

(6) INVESTMENT IN LUTHERAN CENTER CORPORATION

LWR occupies approximately 33% of the office space and common space in the Lutheran Center owned by Lutheran Center Corporation (“LCC”). LCC, a non-profit organization, was organized to construct and operate the office building which LWR, Lutheran Immigration and Refugee Service (“LIRS”) and other organizations occupy. LWR has a 50% interest in LCC and as such, carries its investment in LCC on the equity method. LWR, LIRS and other tenants are providing monthly payments to LCC under a partial cost sharing agreement which provides for reimbursement of costs, including interest and depreciation, in operating the building based upon space occupied. The Agreement is for 30 years commencing September 1, 1999 through August 31, 2029 with six renewal options of 10 years each. Since LWR occupies less than 50% of the total space, repayment of LWR’s portion of debt and related interest is funded by the other tenants cost share contributions based upon their percentage of space occupied. For the years ended September 30, 2010 and 2009, LWR has recorded occupancy expense of \$373,728 and \$357,595, respectively. The recording of depreciation expense as part of the cost share reduces the investment in LCC since LWR has previously provided equity investments in LCC. At September 30, 2010 and 2009, LWR’s equity in LCC was \$3,375,490 and \$3,387,759, respectively. At September 30, 2010, LCC assets consisted principally of the building. The building is subject to a ground lease which provides for LCC to pay rent of \$1 per year for the fifty years, with four optional ten-year extensions.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

(7) DEBT

On July 26, 2007, LWR and LIRS borrowed \$5,805,000 through the issuance of Economic Development Revenue Bonds, Series 2007, (“**2007 Bonds**”) through the Maryland Economic Development Corporation. The 2007 Bonds were issued to advance refund the Maryland Economic Development Revenue Bonds, Series 2000 (“**2000 Bonds**”) issued by the Maryland Economic Development Corporation. In addition, proceeds of the 2007 Bonds were used to pay a portion of the issuance costs of the 2007 Bonds. LWR and LIRS are jointly and severally liable for the 2007 Bonds and as such, each has recorded 50% of the outstanding debt and related issue costs. In the event that LIRS is unable to payoff their portion of the outstanding debt, LWR will be liable. LCC, as owner of Lutheran Center, has guaranteed the repayment of the debt. LWR and LIRS must maintain a joint leverage ratio (cash and investments to annual debt service) of 5 to 1 or approximately \$2,500,000.

The 2007 Bonds were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions which begin in 2008. The 2007 Bonds bear interest at 5.25% per annum. Deferred loan costs in the amount of \$113,106 were incurred in connection with the issuance of the 2007 Bonds and LWR capitalized 50% of these costs which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at September 30, 2010 and 2009 is shown on the statement of financial position including unamortized bond premium of \$59,753 and \$62,927, respectively.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund was created in the amount of \$476,594 and LWR has recorded 50% of these funds as Funds held by Trustee. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments of the 2007 Bonds in the event that the other funds available for the purpose are inadequate.

Principal payments under the terms of the 2007 Bond indenture are as follows:

<u>Date</u>	<u>LWR Portion</u>	<u>LIRS Portion</u>	<u>Total</u>
April 1, 2011	\$ 82,500	\$ 82,500	\$ 165,000
April 1, 2012	87,500	87,500	175,000
April 1, 2013	92,500	92,500	185,000
April 1, 2014	100,000	100,000	200,000
April 1, 2015	102,500	102,500	205,000
April 1, 2016 and thereafter	<u>2,162,500</u>	<u>2,162,500</u>	<u>4,325,000</u>
	<u>\$2,627,500</u>	<u>\$2,627,500</u>	<u>\$5,255,000</u>

Interest on the 2007 Bonds for the year ended September 30, 2010 and 2009 amounted to \$140,044 and \$144,178, respectively. Payments of principal and interest are partially funded by other tenants in the Lutheran Center through allocation of building costs based upon space occupied (*See Note 6*).

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

(8) LEASE COMMITMENTS

LWR has two operating leases for office space that expire on June 30, 2011 and October 31, 2013. On November 1, 2009, LWR subleased one of these facilities for one year under an agreement expiring on October 31, 2010. Rent expense for the years ended September 30, 2010, and 2009 was approximately \$97,800 and \$104,500, respectively. As of September 30, 2010, future minimum lease obligations under these operating leases, net of rent payments owed to LWR under the sub-lease agreement, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2011	\$ 82,177
2012	81,490
2013	83,930
2014	<u>7,011</u>
	<u>\$254,608</u>

(9) NET ASSETS

General unrestricted net assets include \$2,136,930 and \$1,920,490 in 2010 and 2009, respectively, of amounts designated by the Board of Directors as quasi-endowment funds and accumulated earnings thereon.

Temporarily restricted net assets at September 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Stand With Africa	\$ 37,021	\$ 105,956
Small Farmers	70,101	51,366
Sudan Relief and Rehabilitation	95,255	179,859
South Asia Tsunami Relief and Rehabilitation	5,217,254	7,600,825
East Africa Drought Response	76,499	89,421
West Africa Drought Response	61,676	68,879
Kenya-Response to Drought & Famine	-	20,747
Water for Women	63,416	63,416
Lutheran Malaria Initiative Campaign	-	1,200,200
Subsistence Plus	-	477,292
Sri Lanka Emergency Funds	314	39,158
Kenya Crisis Funds	7,760	32,523
Haiti Earthquake Response	5,153,155	-
Pakistan Flood	202,405	-
Other Temporarily Restricted Funds	96,599	169,813
Use in future periods		
Contributions	<u>1,754,255</u>	<u>1,669,307</u>
	<u>\$12,835,710</u>	<u>\$11,768,762</u>

Permanently restricted net assets at September 30, 2010 and 2009, respectively, are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Endowment Fund	\$ 76,000	\$ 66,000
Kathryn F. Wolford Global Fund For Women	<u>100,874</u>	<u>100,774</u>
	<u>\$176,874</u>	<u>\$166,774</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

Purpose restrictions accomplished:

International Programs, Relief and Development	\$ 10,096,127
Faith in Action (Education and Public Policy)	915,312
Fundraising	492,150
International Program Development and Technical Support	184,435
Time restrictions expired	<u>639,194</u>
	<u>\$ 12,327,218</u>

Endowment net asset composition by type of fund as of September 30, 2010 and 2009:

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 176,874	\$ 176,874
Funds functioning as endowment funds	<u>2,136,930</u>	<u>-</u>	<u>-</u>	<u>2,136,930</u>
Total Funds	<u>\$ 2,136,930</u>	<u>\$ -</u>	<u>\$ 176,874</u>	<u>\$ 2,313,804</u>

	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 166,774	\$ 166,774
Funds functioning as endowment funds	<u>1,920,490</u>	<u>-</u>	<u>-</u>	<u>1,920,490</u>
Total Funds	<u>\$ 1,920,490</u>	<u>\$ -</u>	<u>\$ 166,774</u>	<u>\$ 2,087,264</u>

LWR classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets.

Changes in endowment net assets for the years ended September 30, 2010 and 2009:

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,920,490	\$ -	\$ 166,774	\$ 2,087,264
Investment return	216,440	-	-	216,440
Contributions	<u>-</u>	<u>-</u>	<u>10,100</u>	<u>10,100</u>
	<u>\$ 2,136,930</u>	<u>\$ -</u>	<u>\$ 176,874</u>	<u>\$ 2,313,804</u>

	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,918,323	\$ -	\$ 166,774	\$ 2,085,097
Investment return	<u>2,167</u>	<u>-</u>	<u>-</u>	<u>2,167</u>
	<u>\$ 1,920,490</u>	<u>\$ -</u>	<u>\$ 166,774</u>	<u>\$ 2,087,264</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2010 and 2009

(10) U.S. GOVERNMENT GRANTS

LWR has entered into grant agreements with USAID and USDOS for various programs. The revenues and expenditures for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Expenditures</u>
Relief and other programs				
USAID	\$ 1,407,466	\$ 1,407,466	\$ 814,765	\$ 814,765
USDOS	<u>895,640</u>	<u>895,640</u>	<u>1,057,831</u>	<u>1,057,831</u>
	2,303,106	2,303,106	1,872,596	1,872,596
Ocean Freight Reimbursement – USAID	<u>99,350</u>	<u>99,350</u>	<u>61,850</u>	<u>61,850</u>
Total U.S. Government Grants – Cash	<u>\$2,402,456</u>	<u>\$2,402,456</u>	<u>\$1,934,446</u>	<u>\$1,934,446</u>

(11) PENSION PLAN

All employees of LWR are enrolled in the defined contribution pension plan made available and administered by the Board of Pensions of the Evangelical Lutheran Church in America. Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Pension expense was approximately \$303,000 for 2010 and \$310,000 for 2009.

(12) COMMITMENTS AND CONTINGENCIES

LWR has entered into loan guarantee agreements with certain banks and nonprofit microfinance institutions (MFI's) overseas in order to facilitate credit for various partner organizations. Under these agreements, LWR would be jointly responsible with the banks and MFI's for non-payment by the borrowers. The terms of these guarantees are generally over the life of the outstanding loans, which currently become due on or before December 31, 2010. As of September 30, 2010 and 2009, LWR's maximum commitments under these agreements was approximately \$142,400 and \$81,500, respectively. LWR did not incur any expense due to nonpayment during the years ended September 30, 2010 and 2009.

SUPPLEMENTAL INFORMATION

TAIT, WELLER & BAKER LLP
Certified Public Accountants

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION**

**Lutheran World Relief, Incorporated
Baltimore, Maryland**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Lutheran World Relief, Incorporated as of and for the year ended September 30, 2010 which are presented in the preceding section of this report. The accompanying supplemental information for area support and program services expenses, pages 17 to 19, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
December 22, 2010**

LUTHERAN WORLD RELIEF, INCORPORATED

AREA SUPPORT AND PROGRAM SERVICES EXPENSES

Year ended September 30, 2010 with Comparative Totals for 2009

	PROGRAM SERVICES			2009
	2010			
	International Programs, Relief And Development	Faith In Action (Education And Public Policy)	2010 Total	Comparative Total
Africa				
Burkina Faso	\$ 1,702,484	\$ -	\$ 1,702,484	\$ 1,818,757
Chad	-	-	-	169,565
Congo	211,602	-	211,602	50,003
Djibouti	116,434	-	116,434	-
Ethiopia	-	-	-	2,350
Kenya	2,279,378	-	2,279,378	1,188,473
Liberia	-	-	-	193,807
Mali	1,037,696	-	1,037,696	1,040,384
Mauritania	290,787	-	290,787	494,500
Niger	1,871,089	-	1,871,089	691,277
Sierra Leone	1,213,753	-	1,213,753	1,421,906
Sudan	120,000	-	120,000	280,018
Tanzania	1,766,568	-	1,766,568	1,736,917
Uganda	599,251	-	599,251	751,166
Zimbabwe	-	-	-	37,890
Program Management	400,727	-	400,727	572,032
	<u>11,609,769</u>	<u>-</u>	<u>11,609,769</u>	<u>10,449,045</u>
Asia				
Afghanistan	-	-	-	544,159
India	1,431,119	-	1,431,119	1,859,154
Indonesia	1,497,395	-	1,497,395	1,941,167
Laos	-	-	-	172,277
Myanmar	-	-	-	74,837
Nepal	191,373	-	191,373	195,345
Philippines	1,133,052	-	1,133,052	1,020,659
Sri Lanka	1,184,295	-	1,184,295	1,825,281
Thailand	1,364,545	-	1,364,545	1,289,624
Program Management	471,745	-	471,745	385,254
	<u>7,273,524</u>	<u>-</u>	<u>7,273,524</u>	<u>9,307,757</u>

LUTHERAN WORLD RELIEF, INCORPORATED

AREA SUPPORT AND PROGRAM SERVICES EXPENSES – (Continued)

Year ended September 30, 2010 with Comparative Totals for 2009

	PROGRAM SERVICES			2009
	2010		2009	
	International Programs, Relief And Development	Faith In Action (Education And Public Policy)		2010 Total
Middle East				
Jordan	221,057	-	221,057	344,858
Lebanon	217,506	-	217,506	-
Multi-country Middle East	-	-	-	122,558
Palestine	723,069	-	723,069	521,579
Pakistan	352,279	-	352,279	159,023
Syrian Arab Republic	218,604	-	218,604	-
	<u>1,732,515</u>	<u>-</u>	<u>1,732,515</u>	<u>1,148,018</u>
Latin America				
Bolivia	461,961	-	461,961	610,613
Chile	20,000	-	20,000	-
Colombia	492,634	-	492,634	509,724
Costa Rica	-	-	-	3,500
El Salvador	232,554	-	232,554	202,701
Guatemala	226,136	-	226,136	203,386
Haiti	2,895,634	-	2,895,634	97,447
Honduras	146,954	-	146,954	138,498
Multi-country Latin America	-	-	-	51,771
Nicaragua	1,724,116	-	1,724,116	1,359,270
Panama	-	-	-	10,000
Peru	699,230	-	699,230	1,282,882
Program Management	404,631	-	404,631	402,236
	<u>7,303,850</u>	<u>-</u>	<u>7,303,850</u>	<u>4,872,028</u>
Other Worldwide				
Armenia	\$ 223,175	\$ -	\$ 223,175	\$ -
Azerbaijan	662,013	-	662,013	1,973,337
Belarus	-	-	-	179,066
Georgia	107,415	-	107,415	521,680
Serbia	237,171	-	237,171	-
Ukraine	-	-	-	516,833
United States	-	54,472	54,472	-
Uzbekistan	-	-	-	193,659
	<u>1,229,774</u>	<u>54,472</u>	<u>1,284,246</u>	<u>3,384,575</u>
Total area program expenses	<u>29,149,432</u>	<u>54,472</u>	<u>29,203,904</u>	<u>29,161,423</u>

LUTHERAN WORLD RELIEF, INCORPORATED

AREA SUPPORT AND PROGRAM SERVICES EXPENSES – (Continued)

Year ended September 30, 2010 with Comparative Totals for 2009

	PROGRAM SERVICES			2009
	2010			
	International Programs, Relief And Development	Faith In Action (Education And Public Policy)	2010 Total	Comparative Total
Other program expenses				
Cross Regional –				
Program Management	\$ 334,239	\$ -	\$ 334,239	\$ 385,546
Program Support	501,328		501,328	468,714
Material Resources –				
Program Management	90,247	-	90,247	83,668
Emergencies –				
Program Management	-	-	-	115,926
International Program Development & Technical Support	357,667	-	357,667	202,297
Communications, Education and Public Policy	-	3,058,227	3,058,227	2,488,960
Worldwide	<u>(43,221)</u>	<u>-</u>	<u>(43,221)</u>	<u>299,976</u>
Total other program expenses	<u>1,240,260</u>	<u>3,058,227</u>	<u>4,298,487</u>	<u>4,045,087</u>
Total expenses before depreciation	30,389,692	3,112,699	33,502,391	33,206,510
Depreciation of equipment	<u>133,852</u>	<u>10,831</u>	<u>144,683</u>	<u>99,396</u>
Total expenses (2010)	<u>\$ 30,523,544</u>	<u>\$3,123,530</u>	<u>\$33,647,074</u>	<u>\$ 33,305,906</u>