

LUTHERAN WORLD RELIEF, INCORPORATED

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2011

LUTHERAN WORLD RELIEF, INCORPORATED

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TAIT, WELLER & BAKER LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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, 2011, 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 2010 financial statements and, in our report dated December 22, 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, 2011, 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
January 11, 2012

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 6,680,443	\$ 8,199,537
Grants receivable	1,284,285	1,307,386
Miscellaneous receivables and advances to overseas offices	1,533,134	961,324
Contributions receivable (<i>Note 2</i>)	2,069,843	1,754,255
Marketable securities (<i>Note 3</i>)	28,285,935	28,121,697
Other investments (<i>Note 4</i>)	127,755	135,635
Purchased inventory	58,628	228,373
Plant and equipment – net of accumulated depreciation (<i>Note 5</i>)	479,469	472,392
Funds held by trustee (<i>Note 7</i>)	348,763	355,261
Investment in Lutheran Center Corporation (<i>Note 6</i>)	<u>3,410,461</u>	<u>3,375,490</u>
	44,278,716	44,911,350
Inventories of donated materials for distribution, at estimated values	<u>6,222,728</u>	<u>4,011,937</u>
Total assets	<u>\$ 50,501,444</u>	<u>\$ 48,923,287</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 2,100,964	\$ 1,080,495
Advances received for program purposes	1,415,341	1,560,053
Long-term debt (<i>Note 7</i>)	<u>2,601,579</u>	<u>2,687,253</u>
Total liabilities	<u>6,117,884</u>	<u>5,327,801</u>
NET ASSETS		
Unrestricted		
General (<i>Note 9</i>)	26,694,227	26,570,965
Inventories of donated materials for distribution, at estimated values	<u>6,222,728</u>	<u>4,011,937</u>
Total unrestricted net assets	32,916,955	30,582,902
Temporarily restricted (<i>Note 9</i>)	11,243,531	12,835,710
Permanently restricted (<i>Note 9</i>)	<u>223,074</u>	<u>176,874</u>
Total net assets	<u>44,383,560</u>	<u>43,595,486</u>
Total liabilities and net assets	<u>\$ 50,501,444</u>	<u>\$ 48,923,287</u>

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2011 with Summarized Information for 2010

	2011						2010 Comparative Total
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operations	Material Aid	Total Unrestricted				
Support							
Church body support							
Evangelical Lutheran Church in America	\$ 385,455	\$ -	\$ 385,455	\$ 2,854,545	\$ -	\$ 3,240,000	\$ 3,995,679
Lutheran Church – Missouri Synod	<u>759,376</u>	<u>-</u>	<u>759,376</u>	<u>403,924</u>	<u>-</u>	<u>1,163,300</u>	<u>1,267,500</u>
	<u>1,144,831</u>	<u>-</u>	<u>1,144,831</u>	<u>3,258,469</u>	<u>-</u>	<u>4,403,300</u>	<u>5,263,179</u>
Contributions	9,413,637	-	9,413,637	4,255,374	10,200	13,679,211	15,649,205
Foundation grants	3,917,441	-	3,917,441	-	-	3,917,441	1,530,808
Bequests	2,065,120	-	2,065,120	180,640	36,000	2,281,760	1,872,377
U.S. Government grants (<i>Note 10</i>)							
Relief and other programs	2,235,552	-	2,235,552	-	-	2,235,552	2,303,106
Ocean freight reimbursement	15,000	-	15,000	-	-	15,000	99,350
Foods Resource Bank	423,332	-	423,332	-	-	423,332	303,370
Thrivent Financial for Lutherans	-	-	-	-	-	-	463,102
Action by Churches Together	-	-	-	-	-	-	91,016
Church World Service via CROP	-	-	-	299,606	-	299,606	55,608
Combined Federal Campaign	<u>-</u>	<u>-</u>	<u>-</u>	<u>535,794</u>	<u>-</u>	<u>535,794</u>	<u>477,215</u>
	<u>18,070,082</u>	<u>-</u>	<u>18,070,082</u>	<u>5,271,414</u>	<u>46,200</u>	<u>23,387,696</u>	<u>22,845,157</u>
Total support	<u>19,214,913</u>	<u>-</u>	<u>19,214,913</u>	<u>8,529,883</u>	<u>46,200</u>	<u>27,790,996</u>	<u>28,108,336</u>
Revenue							
Miscellaneous	<u>36,599</u>	<u>-</u>	<u>36,599</u>	<u>-</u>	<u>-</u>	<u>36,599</u>	<u>44,215</u>
Total support and revenue – cash	<u>19,251,512</u>	<u>-</u>	<u>19,251,512</u>	<u>8,529,883</u>	<u>46,200</u>	<u>27,827,595</u>	<u>28,152,551</u>
Support-In-Kind							
Inventories of donated materials for distribution, at estimated values	<u>-</u>	<u>14,565,125</u>	<u>14,565,125</u>	<u>-</u>	<u>-</u>	<u>14,565,125</u>	<u>12,744,499</u>
Net assets released from restrictions (<i>Note 9</i>)	<u>10,122,062</u>	<u>-</u>	<u>10,122,062</u>	<u>(10,122,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>29,373,574</u>	<u>14,565,125</u>	<u>43,938,699</u>	<u>(1,592,179)</u>	<u>46,200</u>	<u>42,392,720</u>	<u>40,897,050</u>

See notes to financial statements.

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2011 with Summarized Information for 2010

	2011					2010 Comparative Total	
	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted		Total
	Operations	Material Aid					
Expenses							
Program services	<u>24,947,465</u>	<u>12,354,334</u>	<u>37,301,799</u>	<u>-</u>	<u>-</u>	<u>37,301,799</u>	<u>33,647,074</u>
Supporting Services							
General management	1,946,052	-	1,946,052	-	-	1,946,052	1,793,432
Fundraising	<u>2,301,292</u>	<u>-</u>	<u>2,301,292</u>	<u>-</u>	<u>-</u>	<u>2,301,292</u>	<u>1,666,240</u>
Total supporting services	<u>4,247,344</u>	<u>-</u>	<u>4,247,344</u>	<u>-</u>	<u>-</u>	<u>4,247,344</u>	<u>3,459,672</u>
Total expenses	<u>29,194,809</u>	<u>12,354,334</u>	<u>41,549,143</u>	<u>-</u>	<u>-</u>	<u>41,549,143</u>	<u>37,106,746</u>
Excess (deficit) of income over expenses	178,765	2,210,791	2,389,556	(1,592,179)	46,200	843,577	3,790,304
Other Changes In Net Assets							
Investment return net of amounts designated for current operations (<i>Note 2</i>)	<u>(55,503)</u>	<u>-</u>	<u>(55,503)</u>	<u>-</u>	<u>-</u>	<u>(55,503)</u>	<u>1,809,326</u>
Change in net assets	123,262	2,210,791	2,334,053	(1,592,179)	46,200	788,074	5,599,630
Net Assets							
Beginning 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>
End of year	<u>\$26,694,227</u>	<u>\$ 6,222,728</u>	<u>\$ 32,916,955</u>	<u>\$ 11,243,531</u>	<u>\$223,074</u>	<u>\$44,383,560</u>	<u>\$43,595,486</u>

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2011 with Summarized Information for 2010

	PROGRAM SERVICES		SUPPORTING SERVICES				TOTAL EXPENSES	
	2011 Total	2010 Total	General Management	Fundraising	2011 Total	2010 Comparative Total	2011 Total	2010 Comparative Total
Salaries	\$ 4,379,681	\$ 3,758,629	\$ 967,734	\$ 690,473	\$ 1,658,207	\$ 1,333,405	\$ 6,037,888	\$ 5,092,034
Employee benefits and payroll taxes	<u>1,613,926</u>	<u>1,336,709</u>	<u>292,471</u>	<u>202,616</u>	<u>495,087</u>	<u>420,345</u>	<u>2,109,013</u>	<u>1,757,054</u>
Total salaries and related expenses	5,993,607	5,095,338	1,260,205	893,089	2,153,294	1,753,750	8,146,901	6,849,088
Retained services	1,652,631	1,478,048	365,189	476,808	841,997	482,576	2,494,628	1,960,624
Program materials and other supplies	167,270	132,318	15,750	16,567	32,317	14,820	199,587	147,138
Communications and Postage	242,071	195,826	25,355	179,890	205,245	183,632	447,316	379,458
Occupancy costs								
Cost share, including interest/rent	303,148	331,482	81,662	77,903	159,565	141,178	462,713	472,660
Overseas	231,060	179,251	-	-	-	-	231,060	179,251
Insurance	32,718	36,156	27,103	-	27,103	27,559	59,821	63,715
Equipment rental, repairs and capital outlay	164,501	219,129	17,443	28,752	46,195	35,363	210,696	254,492
Travel and meetings	1,206,125	1,057,628	136,758	121,837	258,595	196,603	1,464,720	1,254,231
Printing, publications and film	118,640	190,007	276	270,980	271,256	294,923	389,896	484,930
Membership fees	90,178	48,564	12,302	40,845	53,147	48,860	143,325	97,424
Bank and merchant fees	-	75	131,002	152,962	283,964	301,357	283,964	301,432
Material aid								
Donated materials								
(blankets and quilts, medical, etc.)	12,354,334	10,709,194	-	-	-	-	12,354,334	10,709,194
Purchased materials	374,670	461,395	-	-	-	-	374,670	461,395
Cash related costs	1,568,713	1,388,222	-	-	-	-	1,568,713	1,388,222
Grants (cash)	12,573,918	11,864,253	-	-	-	54,470	12,573,918	11,918,723
Other program costs	82,628	53,478	-	-	-	-	82,628	53,478
Miscellaneous	50,042	62,027	20,745	35,477	56,222	63,744	106,264	125,771
Reimbursement of administrative expenses	<u>-</u>	<u>-</u>	<u>(154,743)</u>	<u>-</u>	<u>(154,743)</u>	<u>(152,182)</u>	<u>(154,743)</u>	<u>(152,182)</u>
Total expenses before depreciation	37,206,254	33,502,391	1,939,047	2,295,110	4,234,157	3,446,653	41,440,411	36,949,044
Depreciation of equipment	<u>95,545</u>	<u>144,683</u>	<u>7,005</u>	<u>6,182</u>	<u>13,187</u>	<u>13,019</u>	<u>108,732</u>	<u>157,702</u>
TOTAL EXPENSES	<u>\$ 37,301,799</u>	<u>\$ 33,647,074</u>	<u>\$ 1,946,052</u>	<u>\$ 2,301,292</u>	<u>\$ 4,247,344</u>	<u>\$ 3,459,672</u>	<u>\$ 41,549,143</u>	<u>\$ 37,106,746</u>

See notes to financial statements.

LUTHERAN WORLD RELIEF, INCORPORATED

STATEMENTS OF CASH FLOWS

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
DECREASE IN CASH AND CASH EQUIVALENTS		
<i>Change in net assets</i>	\$ 788,074	\$ 5,599,630
<i>Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities</i>		
Support-in-kind	(14,565,125)	(12,744,499)
Material aid in-kind	12,354,334	10,709,194
Amortization of bond premium and deferred loan costs	2,046	2,046
Depreciation	108,732	157,702
Gain on disposition of property	-	(4,184)
Equity in (gain) loss in Lutheran Center Corporation	(34,971)	12,269
Realized gain on sale of investments	(387,484)	(279,677)
Change in unrealized depreciation (appreciation)	1,295,303	(717,873)
(Increase) decrease in		
Accounts receivable – U.S. Government	111,863	(182,386)
Accounts receivable – Foundations	(88,762)	(523,051)
Miscellaneous receivables and advances to overseas offices	(577,030)	(120,914)
Contributions receivable	(315,588)	(84,948)
Purchased inventory	169,745	(228,373)
Funds held by trustee	6,498	(5,730)
Increase (decrease) in		
Accounts payable and accrued expenses	1,020,469	(40,274)
Advances received for program purposes	(144,712)	1,560,053
Net cash (used for) provided by operating activities	<u>(256,608)</u>	<u>3,108,985</u>
<i>Cash flows from investing activities</i>		
Purchase of equipment	(115,809)	(115,711)
Proceeds from sale of equipment	-	12,386
Purchase of investments	(10,946,246)	(8,458,908)
Proceeds from sale of investments	<u>9,882,069</u>	<u>6,780,187</u>
Net cash used for investing activities	<u>(1,179,986)</u>	<u>(1,782,046)</u>
<i>Cash flows from financing activities</i>		
Repayment of long-term debt	<u>(82,500)</u>	<u>(80,000)</u>
Net cash used for financing activities	<u>(82,500)</u>	<u>(80,000)</u>
Net (decrease) increase in cash and cash equivalents	(1,519,094)	1,246,939
<i>Cash and cash equivalents</i>		
Beginning of year	<u>8,199,537</u>	<u>6,952,598</u>
End of year	<u>\$ 6,680,443</u>	<u>\$ 8,199,537</u>

SUPPLEMENTAL DISCLOSURE

Total interest paid for the years ended September 30, 2011 and 2010 was \$137,944 and \$142,144, respectively.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

September 30, 2011 and 2010

(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.

BASIS OF ACCOUNTING

The accounting policies of LWR conform to accounting principles generally accepted in the United States of America as applicable to voluntary health and welfare organizations.

ACCOUNTING ESTIMATES

The preparation of the 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 revenues 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, January 11, 2012, have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment in 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 \$5,564,293 and \$7,624,129 of money market funds and commercial paper with maturities of 90 days or less as of September 30, 2011 and 2010, 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.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

PLANT, EQUIPMENT AND DEPRECIATION

Furniture and equipment purchased by LWR are recorded at cost, or if donated, at fair market value on the date of donation. LWR follows the practice of capitalizing all expenditures for furniture and equipment over \$5,000. Depreciation is computed 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.

INVENTORY OF DONATED MATERIALS

The fair value of all donated materials (blankets and quilts, medical and other supplies) is reviewed annually and adjusted as needed. Donated materials are valued at their estimated fair value at the date of receipt. Donated goods are removed from inventory at the time of distribution of such goods at fair value of the date of distribution.

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 records unconditional promises to give (pledges) as a receivable and revenue in the year pledged. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. 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 advances received for program purposes.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

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. During the year ended September 30, 2011, LWR changed its financial reporting of program services to better reflect its programmatic structure.

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 (2008 – 2010) or expected to be taken in LWR’s 2011 tax return and has concluded that there are no 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, 2010, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2010 financial statements to conform to the 2011 presentation.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

(2) CONTRIBUTIONS RECEIVABLE

Contributions receivable include pledges and various deferred gift annuity contracts which are held by others, but for which LWR has been named the beneficiary. As of September 30, 2011 and 2010, contributions receivable consists of the following:

	<u>2011</u>	<u>2010</u>
Pledges receivable – general	\$ 490,238	\$ 463,244
Pledges receivable – Lutheran Malaria Initiative	<u>194,796</u>	<u>-</u>
Total pledges receivable	685,034	463,244
Deferred gifts	<u>1,384,809</u>	<u>1,291,011</u>
	<u>\$ 2,069,843</u>	<u>\$ 1,754,255</u>

Pledges receivable at September 30, 2011 and 2010 are expected to be realized as follows:

	<u>2011</u>	<u>2010</u>
Receivables due in less than one year	\$ 574,786	\$ 463,244
Receivables due in one to five years	<u>119,055</u>	<u>-</u>
Total pledges receivable at September 30	693,841	463,244
Less discounts to net present value at 3.0%	<u>(8,807)</u>	<u>-</u>
Net pledges receivable at September 30	<u>\$ 685,034</u>	<u>\$ 463,244</u>

As of September 30, 2011, all contributions receivable are considered temporarily restricted. Management expects all pledges to be fully collected and, accordingly, no allowance for doubtful pledges has been recorded.

(3) INVESTMENTS

At September 30, 2011 and 2010, investments consisted of the following:

MARKETABLE SECURITIES

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
U.S. Government Securities				
U.S. Treasury Notes	\$ 1,710,210	\$ 1,777,630	\$ 2,123,818	\$ 2,243,948
U.S. Government Agencies	9,803,132	9,989,721	12,076,515	12,481,776
Corporate & Foreign Bonds	3,075,567	3,074,730	-	-
Common Stock	4,317,881	4,299,373	4,006,603	4,265,686
Mutual funds				
Balanced	1,308,548	1,185,814	1,287,535	1,198,217
Equity	4,751,684	4,425,853	4,061,304	4,256,931
Bond	1,051,122	1,050,251	1,052,502	1,046,140
High Yield	890,961	743,625	815,358	735,773
Income	980,000	1,011,013	1,039,428	1,157,350
Other	<u>898,348</u>	<u>727,925</u>	<u>872,729</u>	<u>735,876</u>
	<u>\$ 28,787,453</u>	<u>\$ 28,285,935</u>	<u>\$ 27,335,792</u>	<u>\$ 28,121,697</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

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 \$7,880 was included in investment income (loss) for the year ended September 30, 2011. No unrealized gain or loss was recognized for the year ended September 30, 2010.

INVESTMENT RETURN

The following summarizes the total investment return for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 852,316	\$ 811,776
Net realized gains	387,484	279,677
Net unrealized gains (losses)	<u>(1,295,303)</u>	<u>717,873</u>
Investment income (loss)	<u>\$ (55,503)</u>	<u>\$ 1,809,326</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 of fiscal years 2011 or 2010.

(4) 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 – Unadjusted quoted prices in active markets for identical assets or liabilities that LWR has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing LWR's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

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, 2011 and 2010

The summary of inputs used to value LWR's Marketable Securities that are carried at fair value as of September 30, 2011 and 2010 is as follows:

	2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government Securities				
U.S. Treasury Notes	\$ -	\$ 1,777,630	\$ -	\$ 1,777,630
U.S. Government Agencies	-	9,989,721	-	9,989,721
Corporate & Foreign Bonds	-	3,074,730	-	3,074,730
Common Stock	4,299,373	-	-	4,299,373
Mutual funds				
Balanced	1,185,814	-	-	1,185,814
Equity	4,425,853	-	-	4,425,853
Bond	1,050,251	-	-	1,050,251
High Yield	743,625	-	-	743,625
Income	1,011,013	-	-	1,011,013
Other	-	<u>727,925</u>	-	<u>727,925</u>
Total Marketable Securities	<u>\$ 12,715,929</u>	<u>\$ 15,570,006</u>	<u>\$ -</u>	<u>\$ 28,285,935</u>
Investment in Divine Chocolate	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,755</u>	<u>\$ 127,755</u>

	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	-	<u>735,876</u>	-	<u>735,876</u>
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>

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2011 or 2010.

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

	<u>2011</u>	<u>2010</u>
Beginning Balance	\$ 135,635	\$ 135,635
Unrealized loss	<u>(7,880)</u>	<u>-</u>
Ending Balance	<u>\$ 127,755</u>	<u>\$ 135,635</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

(5) PLANT AND EQUIPMENT

The costs of such assets were as follows:

	<u>2011</u>	<u>2010</u>
Office furniture and equipment – headquarters	\$ 482,093	\$ 846,462
Assets under development	167,546	-
Office building – overseas	104,775	104,775
Transportation and other equipment – overseas operations	<u>570,029</u>	<u>609,358</u>
	1,324,443	1,560,595
Less accumulated depreciation	<u>844,974</u>	<u>1,088,203</u>
Net value	<u>\$ 479,469</u>	<u>\$ 472,392</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, 2011 and 2010, LWR has recorded occupancy expense of \$348,967 and \$373,728, 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, 2011 and 2010, LWR’s equity in LCC was \$3,410,461 and \$3,375,490, respectively. At September 30, 2011, 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.

(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.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

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 began 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, 2011 and 2010 is shown on the statement of financial position including unamortized bond premium of \$56,579 and \$59,753, 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. Included in Funds held by Trustee at September 30, 2011 and 2010 is \$238,201 and \$231,385, respectively, for LWR's 50% interest in the Debt Service Reserve Fund.

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, 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	107,500	107,500	215,000
April 1, 2017 and thereafter	<u>2,055,000</u>	<u>2,055,000</u>	<u>4,110,000</u>
	<u>\$ 2,545,000</u>	<u>\$ 2,545,000</u>	<u>\$ 5,090,000</u>

Interest on the 2007 Bonds for the year ended September 30, 2011 and 2010 amounted to \$135,778 and \$140,044, 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*).

(8) LEASE COMMITMENTS

LWR has an operating lease for office space that expires on October 31, 2013. As of September 30, 2011, future minimum lease obligations under this operating lease are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2012	\$ 81,490
2013	83,931
2014	<u>7,011</u>
	<u>\$ 172,432</u>

Total rent expense for all leases for the years ended September 30, 2011 and 2010 was approximately \$112,600 and \$97,800, respectively.

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

(9) NET ASSETS

General unrestricted net assets include \$2,159,716 and \$2,136,930 in 2011 and 2010, respectively, of amounts designated by the Board of Directors as quasi-endowment funds and accumulated earnings thereon.

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

	<u>2011</u>	<u>2010</u>
South Asia Tsunami Relief and Rehabilitation	\$ 2,921,669	\$ 5,217,254
Haiti Earthquake Response	4,253,382	5,153,154
Japan Earthquake / Tsunami Relief	609,979	-
East Africa Drought / Famine Fund	807,425	-
Other Temporarily Restricted Funds	581,233	711,047
Use in future periods		
Pledges Receivable and Deferred Gifts	<u>2,069,843</u>	<u>1,754,255</u>
	<u>\$11,243,531</u>	<u>\$ 12,835,710</u>

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

	<u>2011</u>	<u>2010</u>
Endowment Fund	\$ 122,000	\$ 76,000
Kathryn F. Wolford Global Fund For Women	<u>101,074</u>	<u>100,874</u>
	<u>\$ 223,074</u>	<u>\$ 176,874</u>

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:

	<u>2011</u>
South Asia Tsunami Relief and Rehabilitation	\$ 2,306,571
Haiti Earthquake Response	1,013,602
Japan Earthquake / Tsunami Relief	306,688
Pakistan Floods	252,049
Small Farmers' Fund	61,055
West Africa Drought	19,487
East Africa Drought / Famine Fund	66,961
Material Aid	539,363
Lutheran Malaria Initiative	1,006,367
Other International Programs, Relief and Development	3,881,206
Use in future periods	
Pledges Receivable and Deferred Gifts	<u>668,713</u>
	<u>\$10,122,062</u>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

Endowment net asset composition by type of fund as of September 30, 2011 and 2010:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ -	\$223,074	\$ 223,074
Funds functioning as endowment funds	<u>2,159,716</u>	<u>-</u>	<u>-</u>	<u>2,159,716</u>
Total Funds	<u>\$ 2,159,716</u>	<u>\$ -</u>	<u>\$223,074</u>	<u>\$ 2,382,790</u>

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

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, 2011 and 2010:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 2,136,930	\$ -	\$176,874	\$ 2,313,804
Interest and dividends	97,893	-	-	97,893
Realized and unrealized losses, net	(75,107)	-	-	(75,107)
Contributions	<u>-</u>	<u>-</u>	<u>46,200</u>	<u>46,200</u>
	<u>\$ 2,159,716</u>	<u>\$ -</u>	<u>\$223,074</u>	<u>\$ 2,382,790</u>

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 1,920,490	\$ -	\$166,774	\$ 2,087,264
Interest and dividends	207,018	-	-	207,018
Realized and unrealized gains, net	9,422	-	-	9,422
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>

LUTHERAN WORLD RELIEF, INCORPORATED

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2011 and 2010

(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, 2011 and 2010 are as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Expenditures</u>
Relief and other programs				
USAID	\$ 1,275,799	\$ 1,275,799	\$ 1,407,466	\$ 1,407,466
USDOS	<u>959,753</u>	<u>959,753</u>	<u>895,640</u>	<u>895,640</u>
	2,235,552	2,235,552	2,303,106	2,303,106
Ocean Freight Reimbursement – USAID	<u>15,000</u>	<u>15,000</u>	<u>99,350</u>	<u>99,350</u>
Total U.S. Government Grants – Cash	<u>\$ 2,250,552</u>	<u>\$ 2,250,552</u>	<u>\$ 2,402,456</u>	<u>\$ 2,402,456</u>

(11) RETIREMENT PLAN

All employees of LWR are enrolled in the defined contribution pension plan made available and administered by Portico Benefit Services (formerly 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. Retirement benefits expense was approximately \$385,000 for 2011 and \$303,000 for 2010.

(12) PROGRAM SERVICES EXPENSES

During the year ended September 30, 2011, program service expenses have been incurred for the following purposes:

	<u>2011</u>
Agriculture	\$ 5,561,823
Emergencies & Material Resources	20,359,971
Climate Change	1,918,370
Water	1,275,214
Civic Participation & Government Accountability	1,311,086
Health & Livelihoods	4,947,076
Constituent Engagement	<u>1,928,259</u>
	<u>\$37,301,799</u>

(13) 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, and LWR expects the guarantee program to continue indefinitely. Included in miscellaneous receivables and advances to overseas offices at September 30, 2011 are \$251,569 of legally restricted collateral funds deposited with financial institutions administering certain loans and \$204,153 of internally designated collateral funds available for future guarantees. LWR's exposure to losses on current and future guarantees is limited to these legally restricted and internally designated funds as LWR will not guarantee funds in excess of these amounts.

SUPPLEMENTAL INFORMATION

TAIT, WELLER & BAKER LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT 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, 2011 which are presented in the preceding section of this report. The accompanying supplemental information for area support and program services expenses, pages 19 to 20, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
January 11, 2012

LUTHERAN WORLD RELIEF, INCORPORATED

AREA SUPPORT AND PROGRAM SERVICES EXPENSES

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Africa		
Angola	\$ 447,505	\$ -
Botswana	474,922	-
Burkina Faso	451,452	1,702,484
Chad	434,578	-
Congo	-	211,602
Djibouti	228,107	116,434
Ethiopia	250,000	-
Kenya	1,846,843	2,279,378
Liberia	242,461	-
Mali	2,237,969	1,037,696
Mauritania	1,197,165	290,787
Niger	1,960,726	1,871,089
Sierra Leone	1,198,758	1,213,753
Sudan	-	120,000
Tanzania	1,764,387	1,766,568
Uganda	466,043	599,251
Program Management	<u>419,239</u>	<u>400,727</u>
	<u>13,620,155</u>	<u>11,609,769</u>
Asia		
Cambodia	226,311	-
India	1,353,530	1,431,119
Indonesia	1,677,809	1,497,395
Japan	300,000	-
Laos	233,702	-
Nepal	350,804	191,373
Philippines	1,439,320	1,133,052
Sri Lanka	750,162	1,184,295
Thailand	1,336,068	1,364,545
Program Management	<u>545,006</u>	<u>471,745</u>
	<u>8,212,712</u>	<u>7,273,524</u>
Middle East		
Jordan	705,162	221,057
Lebanon	-	217,506
Palestine	155,000	723,069
Pakistan	251,819	352,279
Syrian Arab Republic	179,223	218,604
Yemen	<u>60,880</u>	<u>-</u>
	<u>1,352,084</u>	<u>1,732,515</u>

LUTHERAN WORLD RELIEF, INCORPORATED

AREA SUPPORT AND PROGRAM SERVICES EXPENSES – (Continued)

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Latin America & the Caribbean		
Bolivia	\$ 418,898	\$ 461,961
Chile	-	20,000
Colombia	620,325	492,634
El Salvador	209,448	232,554
Guatemala	-	226,136
Haiti	1,143,351	2,895,634
Honduras	196,761	146,954
Nicaragua	1,314,501	1,724,116
Peru	1,707,164	699,230
Program Management	<u>487,111</u>	<u>404,631</u>
	<u>6,097,559</u>	<u>7,303,850</u>
Other Worldwide		
Armenia	224,799	223,175
Azerbaijan	1,557,196	662,013
Georgia	314,221	107,415
Serbia	463,576	237,171
Romania	219,954	-
United States	<u>156,610</u>	<u>54,472</u>
	<u>2,936,356</u>	<u>1,284,246</u>
Total area program expenses	<u>32,218,866</u>	<u>29,203,904</u>
Other program expenses		
Cross Regional	914,104	835,567
Emergencies and Material Resources – Program Management	107,679	90,247
Monitoring and Evaluation and Technical Program Support	122,926	357,667
U.S.-Based Program and Public Policy	2,915,012	3,058,227
Campaigns	775,497	-
Worldwide	<u>152,170</u>	<u>(43,221)</u>
Total other program expenses	<u>4,987,388</u>	<u>4,298,487</u>
Total expenses before depreciation	37,206,254	33,502,391
Depreciation of equipment	<u>95,545</u>	<u>144,683</u>
Total expenses	<u>\$ 37,301,799</u>	<u>\$ 33,647,074</u>