LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

COMBINED AUDITED FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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

LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

TABLE OF CONTENTS

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

4437 Brookfield Corporate Dr., Suite 205-D
Chantilly, VA 20151

P.O. Box 2584
Winchester, VA 22604

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, 2012 and 2011, 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, 2012 and 2011 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

January 10, 2013

Metro: (703) 631-8940 FAX: (703) 631-8939 Toll Free 1-877-631-8940

LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

COMBINED STATEMENTS OF FINANCIAL POSITION
August 31, 2012 and 2011

ASSETS

	2012			2011		
	LVC	LSC	Total	LVC	LSC	Total
Current Assets						
Cash and cash equivalents	$ 381,733	$ 81,281	$ 463,014	$ 410,780	$ 61,107	$ 471,887
Investments	82,935	31,347	114,282	138,755	29,977	168,732
Accounts receivable	35,986	1,430	37,416	44,214	1,430	45,644
Prepaid expenses	54,220	-	54,220	122,845	-	122,845
Total Current Assets	554,874	114,058	668,932	716,594	92,514	809,108
Property and Equipment						
Furniture and office equipment	41,331	50,000	91,331	41,331	50,000	91,331
Less: Accumulated depreciation	(35,381)	(17,437)	(52,818)	(28,769)	(16,411)	(45,180)
Net Property and Equipment	5,950	32,563	38,513	12,562	33,589	46,151
Other Assets						
Rental deposits	43,771	-	43,771	40,771	-	40,771
Total Assets	$ 604,595	$ 146,621	$ 751,216	$ 769,927	$ 126,103	$ 896,030

LIABILITIES AND NET ASSETS

	2012			2011		
	LVC	LSC	Total	LVC	LSC	Total
Liabilities						
Accounts payable and accrued liabilities	$ 108,400	$ 2,585	$ 110,985	$ 67,178	$ 520	$ 67,698
Deferred revenues	518,477	-	518,477	583,629	-	583,629
Total Current Liabilities	626,877	2,585	629,462	650,807	520	651,327
Net Assets						
Unrestricted	(22,282)	134,766	112,484	(19,635)	119,787	100,152
Unrestricted - Board Designated Vision Fund	-	-	-	58,587	-	58,587
Unrestricted - Board Designated Endowment	-	-	-	80,168	-	80,168
Temporarily Restricted	-	9,270	9,270	-	5,796	5,796
Total Net Assets	(22,282)	144,036	121,754	119,120	125,583	244,703
Total Liabilities and Net Assets	$ 604,595	$ 146,621	$ 751,216	$ 769,927	$ 126,103	$ 896,030

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

LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

COMBINED STATEMENTS OF ACTIVITIES
For the Years Ended August 31, 2012 and 2011

	2012				2011				
Changes in Net Assets Revenues and Support	**LVC Unrestricted**	**LSC Unrestricted**	**LSC Temporarily Restricted**	**Total**	**LVC Unrestricted**	**LSC Unrestricted**	**LVC Temporarily Restricted**	**LSC Temporarily Restricted**	**Total**
Volunteer housing income	$ 733,314	$ 23,790	$ -	$ 757,104	$ 780,700	$ 18,290	$ -	$ -	$ 798,990
Agency placement fees	716,723	-	-	716,723	549,700	-	-	-	549,700
Contributions	305,566	20,617	-	326,183	280,074	23,523	-	-	303,597
Volunteer health fees	77,526	-	-	77,526	194,265	-	-	-	194,265
Special events, net of direct costs	2,490	26,223	-	28,713	4,320	27,161	-	-	31,481
Other revenue	20,725	-	-	20,725	20,918	-	-	-	20,918
Contributed services	19,535	-	-	19,535	15,700	-	-	-	15,700
Foundation grants	8,500	-	6,186	14,686	12,000	-	(18,750)	5,100	(1,650)
Investment income	3,483	1,458	-	4,941	25,662	1,858	-	-	27,520
Volunteer travel income	-	-	-	-	96,308	-	-	-	96,308
Intercompany transfer	30,602	(30,602)	-	-	39,221	(39,221)	-	-	-
Net assets released from restriction	-	2,712	(2,712)	-	90,400	636	(90,400)	(636)	-
Total Revenues and Support	1,918,464	44,198	3,474	1,966,136	2,109,268	32,247	(109,150)	4,464	2,036,829
Expenses									
Program expenses	1,823,016	23,491	-	1,846,507	1,974,983	16,331	-	-	1,991,314
Management and general	116,777	5,728	-	122,505	84,502	6,693	-	-	91,195
Fundraising	120,073	-	-	120,073	136,881	-	-	-	136,881
Total Expenses	2,059,866	29,219	-	2,089,085	2,196,366	23,024	-	-	2,219,390
Change in Net Assets	(141,402)	14,979	3,474	(122,949)	(87,098)	9,223	(109,150)	4,464	(182,561)
Net Assets at Beginning of Year	119,120	119,787	5,796	244,703	206,218	110,564	109,150	1,332	427,264
Net Assets at End of Year	$ (22,282)	$ 134,766	$ 9,270	$ 121,754	$ 119,120	$ 119,787	$ -	$ 5,796	$ 244,703

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, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ (122,949)	$ (182,561)
Adjustments to reconcile change in net assets		
to net cash used in operating activities		
Depreciation	7,638	5,532
Unrealized loss (gain) on investments	1,988	(21,876)
Changes in operating assets and liabilities		
Decrease in accounts receivable	8,228	46,184
Decrease (Increase) in prepaid expenses	68,625	(59,979)
Increase in rental deposits	(3,000)	(120)
Increase (Decrease) in accounts payable and accrued liabilities	43,287	(26,619)
(Decrease) Increase in deferred revenues	(65,152)	109,599
Net cash used in operating activities	(61,335)	(129,840)
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(10,003)
Proceeds on sale of investments	56,800	22,957
Purchases of investments	(4,338)	(5,469)
Net cash used in investing activities	52,462	7,485
Change in cash and cash equivalents	(8,873)	(122,355)
Cash and cash equivalents, beginning of year	471,887	594,242
Cash and cash equivalents, end of year	$ 463,014	$ 471,887

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, 2012

	Program Services		Management & General		Fundraising		
	LVC	LSC	LVC	LSC	LVC	LSC	Total
Expenses							
Salaries	$ 596,751	$ -	$ 44,422	$ -	$ 88,388	$ -	$ 729,561
Volunteer housing	613,877	12,938	-	-	-	-	626,815
Employee benefits	149,196	-	6,385	350	10,824	-	166,755
Retreats, workshops, and special events	138,101	5,040	-	-	-	-	143,141
Professional services	48,714	-	22,239	-	3,656	-	74,609
Volunteer health insurance	70,062	-	-	-	-	-	70,062
Volunteer travel	60,086	1,970	-	-	-	-	62,056
Travel	44,277	-	11,740	2,792	958	-	59,767
Other expenses	24,300	-	6,479	102	5,230	-	36,111
Office rent	28,820	-	1,320	-	1,320	-	31,460
Insurance	-	2,517	16,339	-	-	-	18,856
Telephone	15,403	-	-	-	-	-	15,403
Photocopying and printing	12,300	-	-	1,165	1,750	-	15,215
Training	5,425	-	-	-	5,125	-	10,550
Postage	4,939	-	179	573	2,803	-	8,494
Depreciation	-	1,026	6,612	-	-	-	7,638
Bad debt	6,925	-	-	-	-	-	6,925
Supplies	2,425	-	142	746	-	-	3,313
Equipment	1,415	-	920	-	19	-	2,354
Total Expenses	$ 1,823,016	$ 23,491	$ 116,777	$ 5,728	$ 120,073	$ -	$ 2,089,085

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, 2011

	Program Services		Management & General		Fundraising		
	LVC	LSC	LVC	LSC	LVC	LSC	Total
Expenses							
Salaries	$ 579,445	$ -	$ 32,413	$ -	$ 86,221	$ -	$ 698,079
Volunteer housing	614,238	7,997	-	-	-	-	622,235
Retreats, workshops, and special events	182,811	3,428	-	-	-	-	186,239
Volunteer health insurance	167,634	-	-	-	-	-	167,634
Employee benefits	148,904	-	4,670	-	13,682	-	167,256
Travel	64,669	-	8,193	3,852	2,546	-	79,260
Volunteer travel	66,848	1,440	-	-	-	-	68,288
Professional services	38,917	-	17,632	-	4,638	-	61,187
Photocopying and printing	21,518	-	3,356	1,176	13,418	-	39,468
Other expenses	19,012	-	5,678	209	5,803	-	30,702
Office rent	23,092	-	1,320	-	1,320	-	25,732
Training	8,291	-	2,900	-	5,177	-	16,368
Postage	10,108	-	329	538	3,379	-	14,354
Insurance	9,341	2,440	1,873	-	-	-	13,654
Telephone	12,009	-	26	-	26	-	12,061
Equipment	5,625	-	277	-	671	-	6,573
Depreciation	-	1,026	4,506	-	-	-	5,532
Supplies	2,521	-	1,329	918	-	-	4,768
Total Expenses	$ 1,974,983	$ 16,331	$ 84,502	$ 6,693	$ 136,881	$ -	$ 2,219,390

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.

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 –As of August 31, 2012, 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, 2009 through 2011.

(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.

(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.

LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

NOTES TO COMBINED FINANCIAL STATEMENTS

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

(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.

NOTE 2 – Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at August 31, 2012 and 2011:

	2012	2011
Checking accounts – LVC	$381,733	$410,780
Checking accounts – LSC	81,281	61,107
Total Cash and Cash Equivalents	$463,014	$471,887

NOTE 3 – Investments

Investments are stated at market value and consisted of the following at August 31, 2012 and 2011:

	2012		2011	
LVC	Cost	Market	Cost	Market
Pooled investment trust	$ 39,068	$ 45,437	$ 96,236	$114,118
Money market funds	37,498	37,498	24,637	24,637
LSC				
Corporate bonds	25,257	25,858	25,256	25,871
Money market funds	5,489	5,489	4,106	4,106
Total	$107,312	$114,282	$150,235	$168,732

Components of investment income included the following:

	2012	2011
Dividends and interest	$ 6,929	$ 5,644
Gains (losses) on investments	(1,988)	21,876
Total	$ 4,941	$27,520

LUTHERAN VOLUNTEER CORPS
AND
LUTHERAN SERVICE CORPS

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4 – Property and Equipment

Property and equipment consisted of the following as of August 31, 2012 and 2011:

2011	Cost	Depreciation Expense	Accumulated Depreciation
Building - LSC	$50,000	$1,026	$17,437
Furniture and equipment - LVC	41,331	6,612	35,382
Total	$91,331	$7,638	$52,819
2011			
Building - LSC	$50,000	$1,026	$16,411
Furniture and equipment - LVC	41,331	4,506	28,769
Total	$91,331	$5,532	$45,180

NOTE 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at August 31, 2012 and 2011:

	2012	2011
LSC		
Hillstrom House Maintenance	$9,270	$ 5,796
Total	$9,270	$ 5,796

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

	2012	2011
Thrivent Grant	$ -	$50,400
ELCA Elderly Endowment	-	40,000
Hillstrom House Maintenance	2,712	636
	$ 2,712	$91,036

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. During the current year the Board voted to remove the restrictions on these funds so that they would be available for current operating expenses. Board Restricted Funds consisted of the following as of August 31, 2012 and 2011:

	2012	2011
Vision Fund - beginning of the year	$58,587	$57,883
Distributions	(58,587)	(10,000)
Investment income	-	2,236
Increase (decrease) in value of assets	-	8,468
Vision Fund - end of year	$ -	$58,587

NOTE 7 – 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. During the current year the Board voted to remove the restrictions on these funds so that they would be available for current operating expenses.

Endowment net asset composition by type of fund as of August 31, 2012 and 2011 is as follows:

	2012	2011
LVC Board designated endowment fund	$ -	$80,168

Changes in endowment net asset composition for the years ended August 31, 2012 and 2011 is as follows:

	2012	2011
Endowment net assets - beginning of the year	$80,168	$65,351
Distributions	(80,168)	-
Investment income	-	3,245
Net appreciation (depreciation)	-	11,572
Endowment net assets - end of year	$ -	$80,168

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 7 – Endowment Funds -Continued

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 find 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.

NOTE 8 – 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,	
2013	$395,445
2014	39,445
2015	16,500
Total	$439,390

Rent expense for the years ended August 31, 2012 and 2011, was $561,036 and $551,397, respectively.

NOTE 9 – Evaluation of Subsequent Events

The organizations have evaluated subsequent events through March 20, 2012, the date which the financial statements were available to be issued.