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Office of the Secretary
Provider Reimbursement
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May 20, 2019

Bill Colson, Executive Director
Children's Home Society
801 North Sycamore Ave.
Sioux Falls, SD 57110

The Department has reviewed and concurs with findings 2018-001 and 2018-002 from the Single Audit for Children's Home Society for the fiscal year ended June 30, 2018. The Department considers CHS's corrective action as proposed in the management response portion of the Single Audit Report as having taken the necessary steps to correct the findings if fully implemented.

There is no further action required from CHS at this time.

Sincerely,

A handwritten signature in blue ink that reads 'Greg Evans'.

Greg Evans
Manager
Office of Provider Reimbursement & Audits

GE:bs

cc: DPS Crime Victim Assistance



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C/O 500 EAST CAPITOL
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: November 21, 2018

To: SD Department of Social Services
SD State Board of Internal Control

Re: Audit Report on – Children's Home Society of South Dakota
As of and for the year ended June 30, 2018
By: Eide Bailly, LLP, CPAs

We have issued our report on the audit of the above-named entity in accordance with the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 10 of the Federal Awards Reports section of the report. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure



Consolidated Financial Statements
June 30, 2018 and 2017

Children's Home Society of South Dakota

Children's Home Society of South Dakota

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June 30, 2018 and 2017

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Independent Auditor's Report

The Board of Directors
Children's Home Society of South Dakota
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Society of South Dakota and Children's Home Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 24 through 26 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2018 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

Handwritten signature of Eric Bailly LLP in cursive script.

Sioux Falls, South Dakota
October 23, 2018

Children's Home Society of South Dakota
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents		
Undesignated	\$ 10,529,318	\$ 10,502,593
Designated	4,208,461	4,166,487
	<u>14,737,779</u>	<u>14,669,080</u>
Accounts receivable	1,298,004	1,543,771
Contributions, grants and contracts receivable, net	1,011,837	1,321,577
Prepaid expenses	355,204	327,443
Investments	64,924,084	58,934,139
Beneficial interest in trusts	3,035,874	3,286,949
Beneficial interest in assets held by community foundations	2,437,783	2,385,675
Cash surrender value of life insurance	972,875	933,124
Land, buildings and equipment, net	<u>13,552,514</u>	<u>13,517,426</u>
	<u><u>\$ 102,325,954</u></u>	<u><u>\$ 96,919,184</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 219,077	\$ 125,040
Accrued expenses	2,892,173	2,815,678
Annuity obligations	<u>12,206</u>	<u>26,829</u>
Total liabilities	<u>3,123,456</u>	<u>2,967,547</u>
Net Assets		
Unrestricted		
Undesignated	25,218,610	25,359,486
Designated	20,782,618	18,594,976
Temporarily restricted	14,325,935	12,244,587
Permanently restricted	<u>38,875,335</u>	<u>37,752,588</u>
Total net assets	<u>99,202,498</u>	<u>93,951,637</u>
	<u><u>\$ 102,325,954</u></u>	<u><u>\$ 96,919,184</u></u>

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Child care	\$ 10,162,373	\$ -	\$ -	\$ 10,162,373
Tuition	3,213,062	-	-	3,213,062
Contributions and bequests	1,845,422	576,171	1,399,795	3,821,388
Support from government agencies	2,356,250	-	-	2,356,250
Children's Inn contributions	-	616,979	-	616,979
United Way support	-	879,840	-	879,840
Interest on cash and cash equivalents	18,728	-	-	18,728
Gifts-in-kind	596,803	-	-	596,803
Increase in cash surrender value of life insurance	39,751	-	-	39,751
Distributions from perpetual trusts	44,550	-	-	44,550
Net gain on investments carried at fair value	1,077,016	2,775,032	-	3,852,048
Distributions from and change in value of beneficial interests in assets held by others	(190)	52,098	-	51,908
Investment income	321,060	616,444	-	937,504
Change in value of beneficial interest in trusts	-	(289,508)	82,239	(207,269)
Change in value of annuity obligations	11,718	-	-	11,718
Other state support	-	104,834	-	104,834
Other	228,762	-	-	228,762
Donor restriction redirection	43,805	130,000	(173,805)	-
Net assets released from restrictions				
Satisfaction of program restrictions	3,566,024	(3,380,542)	(185,482)	-
Total revenue, gains and other support	<u>23,525,134</u>	<u>2,081,348</u>	<u>1,122,747</u>	<u>26,729,229</u>
Expenses				
Program services				
Child residential/education	12,610,245	-	-	12,610,245
Children's Inn	2,411,344	-	-	2,411,344
Community based services	3,014,863	-	-	3,014,863
General and administrative	2,054,950	-	-	2,054,950
Fund raising	1,386,966	-	-	1,386,966
Total expenses	<u>21,478,368</u>	<u>-</u>	<u>-</u>	<u>21,478,368</u>
Change in Net Assets	2,046,766	2,081,348	1,122,747	5,250,861
Net Assets, Beginning	<u>43,954,462</u>	<u>12,244,587</u>	<u>37,752,588</u>	<u>93,951,637</u>
Net Assets, Ending	<u>\$ 46,001,228</u>	<u>\$ 14,325,935</u>	<u>\$ 38,875,335</u>	<u>\$ 99,202,498</u>

See Notes to Consolidated Financial Statements

Children's Home Society of South Dakota
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 10,170,015	\$ -	\$ -	\$ 10,170,015
3,214,792	-	-	3,214,792
1,921,471	545,559	1,918,274	4,385,304
2,093,498	-	-	2,093,498
-	448,671	-	448,671
-	879,840	-	879,840
3,436	-	-	3,436
624,063	(15,344)	-	608,719
39,567	-	-	39,567
34,909	-	-	34,909
1,635,691	4,628,383	-	6,264,074
6,655	153,233	-	159,888
299,208	936,610	-	1,235,818
-	153,624	39,460	193,084
(6,660)	-	-	(6,660)
-	-	-	-
229,631	-	-	229,631
-	-	-	-
3,183,860	(3,183,860)	-	-
<u>23,450,136</u>	<u>4,546,716</u>	<u>1,957,734</u>	<u>29,954,586</u>
12,211,489	-	-	12,211,489
2,203,460	-	-	2,203,460
2,525,049	-	-	2,525,049
1,981,171	-	-	1,981,171
1,314,682	-	-	1,314,682
<u>20,235,851</u>	<u>-</u>	<u>-</u>	<u>20,235,851</u>
3,214,285	4,546,716	1,957,734	9,718,735
<u>40,740,177</u>	<u>7,697,871</u>	<u>35,794,854</u>	<u>84,232,902</u>
<u>\$ 43,954,462</u>	<u>\$ 12,244,587</u>	<u>\$ 37,752,588</u>	<u>\$ 93,951,637</u>

Children's Home Society of South Dakota
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 5,250,861	\$ 9,718,735
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	922,596	901,950
(Gain) loss on disposal of equipment	(685)	56
Net gain on investments	(3,852,048)	(6,264,074)
Change in value of beneficial interest in assets held by others	(51,908)	(159,888)
Change in beneficial interest in trusts	207,269	(193,084)
Change in discount and allowance on contributions receivable	180,849	(1,909)
Contributions restricted for endowment including noncash gifts	(192,456)	(794,422)
Change in cash surrender value of life insurance	(39,751)	(39,567)
Change in working capital components		
Receivables	240,153	(100,919)
Prepaid expenses	(27,761)	7,614
Accounts payable	94,037	(35,963)
Accrued expenses	76,495	1,023,479
Annuity obligations	(14,623)	(790)
Net Cash provided by Operating Activities	<u>2,793,028</u>	<u>4,061,218</u>
Investing Activities		
Purchase of land, buildings and equipment	(956,999)	(414,291)
Contribution to community foundation, net of distributions received	(200)	2,186
Purchase of investments	(21,944,888)	(13,058,898)
Proceeds from sale and maturity of investments	19,806,991	11,320,246
Net Cash used for Investing Activities	<u>(3,095,096)</u>	<u>(2,150,757)</u>
Financing Activities		
Proceeds from contributions restricted for endowment	370,662	694,672
Proceeds from contributions restricted for investment in land, buildings and equipment	105	17,000
Net Cash provided by Financing Activities	<u>370,767</u>	<u>711,672</u>
Net Change in Cash and Cash Equivalents	68,699	2,622,133
Cash and Cash Equivalents, Beginning	<u>14,669,080</u>	<u>12,046,947</u>
Cash and Cash Equivalents, Ending	<u>\$ 14,737,779</u>	<u>\$ 14,669,080</u>

Note 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization

The Children's Home Society of South Dakota was incorporated as a nonprofit corporation under the laws of South Dakota on August 20, 1895. The Children's Home Foundation (Foundation) was established by the Children's Home Society. The Foundation's by-laws provide that funds raised, except for funds required for the operation of the Foundation, be distributed to or held for the benefit of the Children's Home Society or other organizations whose primary functions relate to the care of children. If the Foundation were ever to be dissolved, the net assets are to be transferred to Children's Home Society. The Foundation's articles of incorporation provide that the Foundation's board of directors be appointed by the Society.

The Children's Home Society provides residential treatment and education for children, foster care and adoption services, forensic interview and exam centers, and prevention and education resources through facilities located in Sioux Falls and the Black Hills of South Dakota. The Children's Inn is a program of the Society which provides immediate shelter for children and/or women who are in actual or potential situations of domestic violence and provides crisis intervention services to women, children, and families.

Principles of Consolidation

The consolidated financial statements include the accounts of the Children's Home Society of South Dakota and the Children's Home Foundation because Children's Home Society has both control and economic interest in the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "The Society".

Cash and Cash Equivalents

The Society considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Society are excluded from this definition.

Accounts Receivable

Accounts receivable are carried at the amount invoiced, less an allowance for doubtful accounts, if considered necessary. Accounts are determined to be past due based upon the contractual terms of the account. Interest is not charged on past due accounts. Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts are charged off when the balance is determined to be uncollectible. There were no allowances recorded at June 30, 2018 and 2017.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Contributions, Grants and Contracts Receivable

Unconditional contributions and bequests expected to be received within one year are recorded at their net realizable value. Unconditional contributions and bequests expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions and bequests are written off when deemed uncollectable. At June 30, 2018 and 2017, the allowance was \$208,673 and \$30,991, respectively.

Grants from United Way and other certain grants and contracts receivable paid on a cost-reimbursement basis are recognized as a receivable once the services are provided or the costs are incurred or the grant conditions have been met.

Beneficial Interests in Trusts

Charitable Trust Held by Others

The Society has been named as an irrevocable beneficiary of certain charitable remainder trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Society has neither possession nor control over the assets of the trusts. At the date the Society receives notice of a beneficial interest, a temporarily contribution is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. Upon receipt of trust distributions, temporarily restricted net assets are released to unrestricted net assets.

Perpetual Trusts

The Society has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Society; however, the Society will never receive the assets of the trusts. At the date the Society receives notice of a beneficial interest, a permanently restricted contribution is recorded in the statements of activities, and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. In one instance, the donor has specifically granted the trustee the right to encroach upon principal on an as-needed basis. As a result, this perpetual trust is treated as temporarily restricted in the statements of financial position.

Beneficial Interest in Assets Held by Community Foundations

Interest in community foundations represents funds transferred to community foundations by the Foundation where the Foundation has specified the Foundation or the Society as beneficiary. The Foundation granted variance power to the community foundations which allows the community foundations to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the community foundations' Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The funds are held and invested by the community foundations for the benefit of the Society, and are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discounts rate designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Land, Buildings and Equipment

Land, buildings and equipment additions over \$500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and certain governmental and private grants paid in advance are deferred to the applicable period in which the related services are performed. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Society's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Society records donated professional services at the respective fair values of the services received.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Society and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Society's Board of Directors.

The Society reports contributions as temporarily 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 statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Society. The restrictions stipulate that resources be maintained permanently but permit the Society to expend the income generated in accordance with the provisions of the agreements.

Fund Raising Costs

Fund raising costs are expensed as incurred.

Income Taxes

The Society and the Foundation are organized as South Dakota nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Each entity has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entities would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Society manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Society has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions, grants and contracts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and organizations supportive of the Society's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Society.

Fair Value Measurements

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Society can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Society develops inputs using the best information available in the circumstances.

Subsequent Events

Management has considered subsequent events through October 23, 2018, the date that the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassification was to move approximately \$69,000 of donations from contributions and bequests to Children's Inn contributions on the statement of activities. The reclassifications had no impact on previously reported net assets.

Note 2 - Designated Cash and Investments

The Board of Directors has designated that amounts equal to depreciation expense be set aside to fund property and equipment. The amount reported as designated cash and investments equals this amount, less property and equipment acquisitions paid for with such funds. The Board of Directors has also designated a portion of investments for endowment.

In addition, the Board of Directors has designated that funds held in certain unrestricted cash accounts at June 30, 2018 and 2017 be used for the purpose of funding employee benefits. Specifically, these investments will provide additional funding for the deferred compensation of key employees of the Society (Note 14).

The following summarizes designated cash and investments at June 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	\$ 4,208,461	\$ 4,166,487
Investments:		
Depreciation	247,574	320,068
Operating reserve	1,580,184	-
Deferred compensation	557,492	562,652
Endowment	14,188,907	13,545,769
	<u>\$ 20,782,618</u>	<u>\$ 18,594,976</u>

Note 3 - Contributions, Grants and Contracts Receivable

Contributions, grants, and contracts receivable at June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Endowment	\$ 655,000	\$ 749,400
Children's Inn	19,645	16,000
Unrestricted bequests	6,728	46,424
Government agencies	143,751	151,595
United Way - Children's Inn and Bright Start	453,687	444,283
Total contributions, grants and contracts receivable	<u>1,278,811</u>	<u>1,407,702</u>
Less:		
Discount to net present value at 5% to 6%	(58,301)	(55,134)
Allowance for uncollectible pledges	<u>(208,673)</u>	<u>(30,991)</u>
Net contributions, grants and contracts receivable	<u>\$ 1,011,837</u>	<u>\$ 1,321,577</u>

At June 30, 2018 and 2017, three donors accounted for approximately 45% and 44%, respectively, of total contributions and bequests receivable.

Children's Home Society of South Dakota
Notes to Consolidated Financial Statements
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The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2018.

<u>Due by June 30:</u>	
2019	\$ 727,676
2020	440,010
2021	56,125
2022	55,000
	<u>\$ 1,278,811</u>

Note 4 - Investments

The following summarizes investments by major investment type at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unrestricted		
Cash equivalents and money market funds	\$ 633,691	\$ 2,587,138
Certificates of deposit	656,489	474,327
Corporate debt securities	67,930	310,656
Mutual funds - equity securities	13,690,464	11,432,576
Mutual funds - debt securities	3,576,606	1,525,062
Common stock	136,206	123,775
	<u>18,761,386</u>	<u>16,453,534</u>
Temporarily and permanently restricted		
Cash equivalents and money market funds	1,588,883	2,143,203
Certificates of deposit	137,622	315,709
State and municipal government obligations	325,230	354,084
Corporate debt securities	1,690,972	1,353,251
Mutual funds - equity securities	32,147,895	32,107,651
Mutual funds - debt securities	8,140,318	4,183,056
Common stock	2,101,072	1,992,010
Preferred stock	30,706	31,641
	<u>46,162,698</u>	<u>42,480,605</u>
	<u>\$ 64,924,084</u>	<u>\$ 58,934,139</u>

Investment income from investments is recorded net of related investment fees of \$186,761 and \$187,468 for the years ended June 30, 2018 and 2017, respectively.

Note 5 - Beneficial Interest in Trusts

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2018 and 2017:

	2018				2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Beneficial interest in perpetual trusts					
Williamson Trust	\$ -	\$ -	\$ 148,501	\$ 148,501	\$ 151,025
Frank West Trust	-	-	-	-	43,854
A. Coe Frankhauser Charitable Trust	-	-	84,582	84,582	4,234
Thelma Serr Charitable Trust	-	-	315,315	315,315	318,020
Hayward Memorial Trust	-	130,812	-	130,812	128,511
Beach Memorial Trust	-	-	338,585	338,585	331,417
Beneficial interest in charitable trusts					
Edith Siegrist Trust	-	190,409	-	190,409	190,867
Didier Charitable Annuity Trust	-	110,699	-	110,699	107,267
Verne and Bonnie Anderson Trust	-	1,716,971	-	1,716,971	2,011,754
	<u>\$ -</u>	<u>\$ 2,148,891</u>	<u>\$ 886,983</u>	<u>\$ 3,035,874</u>	<u>\$ 3,286,949</u>

The Society is also the beneficiary under various wills and revocable split interest agreements, the total realizable amount of which is not presently determinable. Such amounts will be recorded when an irrevocable right to receive benefits under the will or agreement has been received. The Frank West Trust was dissolved in 2018 by the trustee due to the costs of administering the trust relative to the trust assets.

Note 6 - Donated Professional Services and Materials

The Society received donated professional services and materials as follows during the years ended June 30, 2018 and 2017:

	Program Services	Management and General	Fundraising and Development	Total
<u>June 30, 2018</u>				
Advertising and printing	\$ -	\$ -	\$ 230,214	\$ 230,214
Events	-	-	111,447	111,447
Professional services	2,050	12,500	-	14,550
Other goods and services	240,592	-	-	240,592
	<u>\$ 242,642</u>	<u>\$ 12,500</u>	<u>\$ 341,661</u>	<u>\$ 596,803</u>
<u>June 30, 2017</u>				
Advertising and printing	\$ -	\$ -	\$ 211,792	\$ 211,792
Events	41,696	-	151,727	193,423
Professional services	8,245	26,126	3,250	37,621
Other goods and services	161,883	-	4,000	165,883
	<u>\$ 211,824</u>	<u>\$ 26,126</u>	<u>\$ 370,769</u>	<u>\$ 608,719</u>

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Note 7 - Non-Recognized Funds Held by Community Foundations

A number of designated funds which benefit the Society are maintained at the Sioux Falls Area Community Foundation (SFACF). These funds were established as a result of gifts by donors on the Society's behalf. The Society is the sole beneficiary of these funds; however, SFACF has been given variance power by the donors. Therefore, the Society does not recognize its interest in these funds until any distributions are received.

The following summarizes current values of these designated funds at June 30, 2018 and 2017, and the annual distributions for the years ended June 30, 2018 and 2017:

	2018		2017	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 94,568	\$ 3,454	\$ 91,609	\$ 3,442
Dorothy Christopherson Fund	47,407	1,731	45,923	1,725
Children's Home Society Endowment	931,633	33,983	901,418	33,860
Lou & Helen Madsen Fund	505,325	18,452	489,463	18,271
Larsen Memorial Fund	140,221	5,121	135,833	5,103
Raymond Daugaard Memorial Fund	70,955	2,591	68,735	2,583
Madden Family Fund	90,949	4,000	88,521	2,000
Children's Inn Endowment	73,084	2,624	69,728	2,599
Madsen House Endowment	98,739	-	92,094	-
Madsen Adoption and Foster Care Endowment	36,965	1,350	35,809	1,345
Excellence in Caring Endowment	31,433	1,169	30,396	1,166
Child Advocacy Center Endowment	21,314	778	20,647	776
Music Fund	17,224	629	16,685	627
Creative Arts	31,688	1,047	29,641	990
Carmody Family Endowment	14,201	519	13,757	517
Child's Voice Endowment	13,482	492	13,059	491
Amundson Family Endowment	36,065	1,313	34,932	1,254
The Sunshyne Fund	5,686	208	5,509	207
Solveig Steen	140,855	4,938	135,929	3,209
Links to Literacy Endowment	22,639	799	21,936	1,047
Profilert Endowment	70,352	2,582	68,266	2,582
Elvira Larson Endowment	11,179	410	-	-
	<u>\$ 2,505,964</u>	<u>\$ 88,190</u>	<u>\$ 2,409,890</u>	<u>\$ 83,794</u>

In addition, the South Dakota Community Foundation has funds totaling \$584,662 and \$557,058 at June 30, 2018 and 2017, respectively, for which the Society is the beneficiary. The Society does not recognize its interest in these funds until any distributions are received. Distributions received totaled \$21,631 and \$20,110 for the years ended June 30, 2018 and 2017, respectively.

Note 8 - Cash Surrender Value of Life Insurance

The Society is the beneficiary of life insurance policies on the lives of certain employees, former employees and donors. Premiums paid by the donors are recorded as contributions received. Premiums paid by the Society are recorded as life insurance expense. The face values of the policies were approximately \$2,221,000 and \$2,225,000 at June 30, 2018 and 2017. The policies had cash values of \$972,875 and \$933,124 at June 30, 2018 and 2017, respectively. Investments in cash surrender value of life insurance are carried at their contract amount.

Note 9 - Land, Buildings, and Equipment

The following summarizes land, buildings and equipment at June 30, 2018 and 2017:

	2018	2017
Land and improvements	\$ 2,082,854	\$ 2,059,396
Buildings and improvements	19,200,158	19,066,766
Equipment and fixtures	4,067,498	3,516,741
Vehicles	726,698	723,286
Construction in progress	91,124	41,286
	<u>26,168,332</u>	<u>25,407,475</u>
Less accumulated depreciation	<u>(12,615,819)</u>	<u>(11,890,050)</u>
	<u><u>\$ 13,552,514</u></u>	<u><u>\$ 13,517,426</u></u>

Note 10 - Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017 are as follows:

	2018	2017
Assets		
Certificates of deposit	\$ 794,111	\$ 790,036
State and municipal government obligations	325,230	354,084
Corporate debt securities	1,758,902	1,663,907
Mutual funds - equity securities	45,838,359	43,540,227
Mutual funds - debt securities	11,716,924	5,708,118
Common stock	2,237,278	2,115,785
Preferred stock	30,706	31,641
Beneficial interest in trusts	3,035,874	3,286,949
Beneficial interest in assets held by community foundations	<u>2,437,783</u>	<u>2,385,675</u>
	<u><u>\$ 68,175,167</u></u>	<u><u>\$ 59,876,422</u></u>
Liabilities		
Annuity obligations	<u><u>\$ 12,206</u></u>	<u><u>\$ 26,829</u></u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The related fair values of these assets and liabilities are determined as follows at June 30, 2018:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of deposit	\$ -	\$ 794,111	\$ -
State and municipal government obligations	-	325,230	-
Corporate debt securities	-	1,758,902	-
Mutual funds - equity securities	45,838,359	-	-
Mutual funds - debt securities	11,716,924	-	-
Common stock	2,237,278	-	-
Preferred stock	30,706	-	-
Total investments valued at fair value	<u>59,823,267</u>	<u>2,878,243</u>	<u>-</u>
Beneficial interest in trusts	-	-	3,035,874
Beneficial interest in assets held by community foundations	<u>-</u>	<u>-</u>	<u>2,437,783</u>
	<u>\$ 59,823,267</u>	<u>\$ 2,878,243</u>	<u>\$ 5,473,657</u>
Liabilities			
Annuity obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,206</u>

The related fair values of these assets and liabilities are determined as follows at June 30, 2017:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of deposit	\$ -	\$ 790,036	\$ -
State and municipal government obligations	-	354,084	-
Corporate debt securities	-	1,663,907	-
Mutual funds - equity securities	43,540,227	-	-
Mutual funds - debt securities	5,708,118	-	-
Common stock	2,115,785	-	-
Preferred stock	31,641	-	-
Total investments valued at fair value	<u>51,395,771</u>	<u>2,808,027</u>	<u>-</u>
Beneficial interest in trusts	-	-	3,286,949
Beneficial interest in assets held by community foundations	<u>-</u>	<u>-</u>	<u>2,385,675</u>
	<u>\$ 51,395,771</u>	<u>\$ 2,808,027</u>	<u>\$ 5,672,624</u>
Liabilities			
Annuity obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,829</u>

Children's Home Society of South Dakota
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The fair value of mutual funds and stocks are determined by reference to quoted market prices. The fair value of certificates of deposit, government obligations, and corporate debt securities are determined by reference to similar assets that are directly or indirectly observable in the marketplace. The fair value of the beneficial interest in trusts, beneficial interests in assets held by community foundations, and annuity obligations are estimated at the present value of the expected future cash flows.

Following is a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2018 and 2017:

	Beneficial interest in:	
	Community Foundations	Trusts
Balance, June 30, 2016	\$ 2,227,973	\$ 3,093,865
Adjustments to fair market value, net of distributions	157,702	193,084
Balance, June 30, 2017	2,385,675	3,286,949
Contribution	200	-
Adjustments to fair market value, net of distributions	51,908	(251,075)
Balance, June 30, 2018	<u>\$ 2,437,783</u>	<u>\$ 3,035,874</u>

Following is a reconciliation of activity for liabilities measured at fair value based upon significant unobservable (non-market) information:

	Annuity Obligations
Balance, June 30, 2016	\$ 27,619
New annuities, net of settled liabilities	(7,450)
Changes in the value of annuity obligations	<u>6,660</u>
Balance, June 30, 2017	26,829
New annuities, net of settled liabilities	(2,905)
Changes in the value of annuity obligations	<u>(11,718)</u>
Balance, June 30, 2018	<u>\$ 12,206</u>

Note 11 - Restricted Net Assets

Temporarily Restricted

The following summarizes temporarily restricted net assets at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowment funds, unappropriated earnings (Note 15)	\$ 7,891,209	\$ 6,324,176
Non-endowment funds, temporarily restricted for:		
United Way and other program expenses	968,356	1,021,154
Building or endowment	685	444
Black Hills programs	1,285,597	696,091
Children's Inn programs	1,633,614	1,432,376
Child's Voice and Child Advocacy Center	4,622	3,719
Creative arts	1,411	839
Prevention	520,997	523,903
Various Children's Home Society programs	2,019,444	2,241,885
	<u>\$ 14,325,935</u>	<u>\$ 12,244,587</u>

Net assets were released from restrictions as follows during the years ending June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions		
Endowment funds, appropriations (Note 15)	\$ 1,634,859	\$ 1,652,304
United Way and other program expenses	974,990	915,683
Building projects	-	10,340
Black Hills programs	28,577	26,882
Children's Inn	624,704	513,106
Employee retention and recruitment	104,834	-
Prevention	12,578	65,545
	<u>\$ 3,380,542</u>	<u>\$ 3,183,860</u>

Permanently Restricted

Permanently restricted net assets consist of beneficial interests in perpetual trusts and endowment funds restricted by donors for investment in perpetuity, and include assets held by community foundations for the benefit of the Society and the Foundation. Distributions from perpetual trusts and earnings on endowment funds are available for the purposes specified by the donors, or in certain cases, for the unrestricted use of the Society and the Foundation. The permanently restricted net assets balances are as follows at June 30, 2018 and 2017:

	2018	2017
Endowment funds (Note 15)	\$ 35,656,189	\$ 34,572,076
Beneficial interest in trusts	886,983	848,549
Beneficial interest in community foundations	2,332,163	2,331,963
	<u>\$ 38,875,335</u>	<u>\$ 37,752,588</u>

Note 12 - Scholarship Contributions

The Society has received both restricted and unrestricted contributions which have been and will be used as scholarships for tuition for children who would not otherwise be able to attend the education programs. These contributions are classified as donations in the statements of activities, and are recognized as income in the year the contribution was received. Tuition income, which does not include these contributions received, would have been approximately \$160,000 and \$154,000 higher for 2018 and 2017, respectively.

Note 13 - Revenue from Governmental Units

The Society receives a substantial amount of its revenue from federal, state and local governments. A significant reduction in the level of this revenue, if this were to occur, may have a corresponding significant effect on the Society's programs and activities.

Note 14 - Employee Benefit Plans

The Society has established a defined contribution 401(k) retirement plan covering all eligible employees who have attained the age of 21 and have one year of service. The plan allows employees the option to make elective deferral contributions and the Society the ability to make discretionary matching contributions based upon the participants' deferrals and/or discretionary profit sharing contributions which are allocated to all eligible participants based upon their eligible compensation. Retirement plan contributions for the years ended June 30, 2018 and 2017 were 8% or \$695,015 and \$698,967, respectively.

The Society has deferred compensation agreements with four key employees and two retired employees which provide for benefits upon retirement, or for their beneficiaries if the employee dies before retirement. The Society is accruing the estimated net present value of the required payments at the earliest dates in which the benefits vest. Four of the plans are considered vested on the date the employees attain the age 65 or January 2020, whichever is first. The other two plans are considered to be fully vested after a period of 10 years or March 2027. No benefits will be paid to the employees should employment be terminated by either party prior to the vesting date. At June 30, 2018 and 2017, \$511,937 and \$467,100, respectively, has been accrued and recorded as a liability in the accompanying financial statements. The Society owns life insurance policies on one of these individuals. The Society will receive the death benefits under the terms of the agreement.

The Society sponsors a self-insured health plan and a self-insured dental plan for all its employees who meet eligibility requirements. A portion of the cost of the plans is withheld from the participating employee's wages and the remainder is paid by the Society. An estimated liability for health and dental claims incurred but not paid at June 30, 2018 and 2017, of approximately \$98,000 and \$80,000, respectively, has been accrued based on past claims experience and management's assessment of future claims.

Note 15 - Endowment Funds

The Society's endowment funds consist of various donor restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (historic dollar value). The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by the state of South Dakota in its enacted version of UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment fund; (2) the purposes of the Society and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investment; (6) other resources of the Society; and (7) the investment policies of the Society.

Children's Home Society of South Dakota
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The following summarizes endowment net assets at June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds				
Any Children's Home Society program	\$ -	\$ 5,443,615	\$ 27,786,567	\$ 33,230,182
Child's Voice and Child Advocacy Center	-	450,552	2,548,444	2,998,996
Children's Inn programs	-	662,456	1,116,866	1,779,322
Building maintenance	-	387,712	293,647	681,359
Restricted cash	-	-	1,800	1,800
Black Hills programs	-	155,225	373,683	528,908
Creative Arts	-	453,474	1,314,565	1,768,039
Mark Amundson Memorial	-	34,455	217,758	252,213
Prevention	-	291,837	1,733,663	2,025,500
Adoption	-	11,883	269,196	281,079
	-	7,891,209	35,656,189	43,547,398
Board designated endowment funds	14,188,907	-	-	14,188,907
	<u>\$ 14,188,907</u>	<u>\$ 7,891,209</u>	<u>\$ 35,656,189</u>	<u>\$ 57,736,305</u>

The following summarizes endowment net assets at June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds				
Any Children's Home Society program	\$ -	\$4,327,343	\$27,301,116	\$ 31,628,459
Child's Voice and Child Advocacy Center	-	344,060	2,213,920	2,557,980
Children's Inn programs	-	584,085	1,090,566	1,674,651
Building maintenance	-	336,422	293,647	630,069
Restricted cash	-	-	517	517
Black Hills programs	-	147,096	402,068	549,164
Creative Arts	-	387,785	1,311,280	1,699,065
Mark Amundson Memorial	-	21,463	199,298	220,761
Prevention	-	175,922	1,682,563	1,858,485
Adoption	(117)	-	77,101	76,984
	(117)	6,324,176	34,572,076	40,896,135
Board designated endowment funds	13,545,769	-	-	13,545,769
	<u>\$ 13,545,652</u>	<u>\$ 6,324,176</u>	<u>\$ 34,572,076</u>	<u>\$ 54,441,904</u>

Children's Home Society of South Dakota
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

The following summarizes the change in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,545,652	\$ 6,324,176	\$ 34,572,076	\$ 54,441,904
Investment return				
Investment income	214,195	673,267	-	887,462
Realized and unrealized gain on investments, net	849,075	2,528,625	-	3,377,700
	<u>1,063,270</u>	<u>3,201,892</u>	<u>-</u>	<u>4,265,162</u>
Contributions and bequests	171,449	-	1,221,913	1,393,362
Donor restriction redirection	-	-	(130,000)	(130,000)
Appropriation of endowment funds for expenditure	(591,464)	(1,634,859)	(7,800)	(2,234,123)
	<u>(420,015)</u>	<u>(1,634,859)</u>	<u>1,084,113</u>	<u>(970,761)</u>
Endowment net assets, end of year	<u>\$ 14,188,907</u>	<u>\$ 7,891,209</u>	<u>\$ 35,656,189</u>	<u>\$ 57,736,305</u>

The following summarizes the change in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 12,135,882	\$ 2,645,717	\$ 32,653,802	\$ 47,435,401
Investment return				
Investment income	276,250	854,480	-	1,130,730
Realized and unrealized gain on investments, net	1,580,208	4,476,283	-	6,056,491
	<u>1,856,458</u>	<u>5,330,763</u>	<u>-</u>	<u>7,187,221</u>
Contributions and bequests	230,038	-	1,918,274	2,148,312
Appropriation of endowment funds for expenditure	(676,726)	(1,652,304)	-	(2,329,030)
	<u>(446,688)</u>	<u>(1,652,304)</u>	<u>1,918,274</u>	<u>(180,718)</u>
Endowment net assets, end of year	<u>\$ 13,545,652</u>	<u>\$ 6,324,176</u>	<u>\$ 34,572,076</u>	<u>\$ 54,441,904</u>

Funds with Deficiencies

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration, (i.e., underwater endowments). Losses on permanently restricted endowment investments are first used to reduce previous investment income and gains which have not been expended. Any additional losses are shown as a reduction in unrestricted net assets. At June 30, 2018 and 2017, deficiencies of this nature reported in unrestricted net assets were \$0 and \$117, respectively. If such deficiencies exist, subsequent gains that restore the fair value of investments to the donor specified amounts will be classified as increases in unrestricted net assets.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for its endowment fund. The objective of these policies is to provide the Society a predictable funding stream for its programs while protecting the purchasing power of the endowment funds. The Society, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 5%; the total return during any single measurement period may deviate from the long-term return objective.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objective, the Society expects to maintain appropriate diversification among equity and fixed income allocations. The purpose is to moderate the overall investment risk of the endowment fund.

Spending Policy and How the Investment Objectives Related to Spending Policy

The Board of Directors of the Society may appropriate for expenditure or accumulate so much of the endowment fund as the Society determines is prudent for the uses, benefits, purpose, and duration for which the endowment fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the prior sixteen quarters. In cases where the fair value of the endowment fund assets fall below the original value of the gifts donated to the permanent endowment, appropriation of gifts will not be made if such appropriation would reduce any gift below its historic-dollar value threshold. However, appropriations may be made from unrestricted quasi-endowment funds in an amount equivalent to an appropriation that would otherwise be allowable, but for the below historic-dollar-value condition. The Board approved spending percentages was 5% for the years ended June 30, 2018 and 2017.

Note 16 - Commitments and Contingencies

Property acquired with federal grants is considered owned by the Society while used in the program for which it was purchased or in other future authorized programs; however, the United States has reversionary interests in certain property. The property's disposition as well as the ownership of any proceeds there from is subject to federal regulations. The total book value of property and equipment in which the United States has reversionary interest is \$2,157,167 and \$2,273,762 at June 30, 2018 and 2017, respectively.

Community Development Block Grants totaling \$915,000, which have been received and used for construction of buildings, are in the form of zero percent notes payable, with mortgages on the property. The notes are due upon noncompliance with the intended purpose of the funds, as defined in the agreement, or upon sale of the property. Since the possibility of having to repay the notes is considered remote, no liability has been recorded for the notes. The net book value of the property pledged on these mortgages is \$1,401,328 and \$1,476,670 at June 30, 2018 and 2017, respectively, and is included in the reversionary interest amount above.



Supplementary Information
June 30, 2018 and 2017

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Consolidating Statement of Financial Position
June 30, 2018

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Assets				
Cash and cash equivalents				
Undesignated	\$ 7,753,357	\$ 2,775,961	\$ -	\$ 10,529,318
Designated	4,208,461	-	-	4,208,461
	<u>11,961,818</u>	<u>2,775,961</u>	<u>-</u>	<u>14,737,779</u>
Accounts receivable	1,238,512	59,492	-	1,298,004
Contributions, grants and contracts receivable, net	597,438	414,399	-	1,011,837
Due from Children's Home Foundation	60,063	-	(60,063)	-
Prepaid expenses	330,212	24,992	-	355,204
Investments	3,094,795	61,829,289	-	64,924,084
Beneficial interest in trusts	980,317	2,055,557	-	3,035,874
Beneficial interest in assets held by community foundations	-	2,437,783	-	2,437,783
Cash surrender value of life insurance	-	972,875	-	972,875
Land, buildings and equipment, net	13,546,962	5,552	-	13,552,514
	<u>\$ 31,810,117</u>	<u>\$ 70,575,900</u>	<u>\$ (60,063)</u>	<u>\$ 102,325,954</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 216,979	\$ 2,098	\$ -	\$ 219,077
Accrued expenses	2,728,556	163,617	-	2,892,173
Annuity obligations	-	12,206	-	12,206
Due to Children's Home Society	-	60,063	(60,063)	-
	<u>2,945,535</u>	<u>237,984</u>	<u>(60,063)</u>	<u>3,123,456</u>
Net Assets				
Unrestricted				
Undesignated	20,014,290	5,204,320	-	25,218,610
Designated	6,593,711	14,188,907	-	20,782,618
Temporarily restricted	1,101,440	13,224,495	-	14,325,935
Permanently restricted	1,155,141	37,720,194	-	38,875,335
	<u>28,864,582</u>	<u>70,337,916</u>	<u>-</u>	<u>99,202,498</u>
	<u>\$ 31,810,117</u>	<u>\$ 70,575,900</u>	<u>\$ (60,063)</u>	<u>\$ 102,325,954</u>

Children's Home Society of South Dakota
Consolidating Statement of Activities
Year Ended June 30, 2018

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Revenue, Gains and Other Support				
Child care	\$ 10,162,373	\$ -	\$ -	\$ 10,162,373
Tuition	3,213,062	-	-	3,213,062
Contributions and bequests	164,605	3,656,783	-	3,821,388
Support from government agencies	2,356,250	-	-	2,356,250
Children's Home Foundation	3,023,838	-	(3,023,838)	-
Children's Inn contributions	616,979	-	-	616,979
United Way support	879,840	-	-	879,840
Interest on cash and cash equivalents	-	18,728	-	18,728
Gifts-in-kind	159,667	437,136	-	596,803
Increase in cash surrender value of life insurance	-	39,751	-	39,751
Distributions from perpetual trusts	44,550	-	-	44,550
Net gain on investments carried at fair value	137,591	3,714,457	-	3,852,048
Distributions from and change in value of beneficial interests in assets held by others	-	51,908	-	51,908
Investment income	131,606	805,898	-	937,504
Change in value of beneficial interest in trusts	80,345	(287,614)	-	(207,269)
Change in value of annuity obligations	-	11,718	-	11,718
Other state support	104,834	-	-	104,834
Other	253,962	-	(25,200)	228,762
Total revenue, gains and other support	21,329,502	8,448,765	(3,049,038)	26,729,229
Expenses				
Program services				
Child residential/education	12,610,245	-	-	12,610,245
Children's Inn	2,411,344	-	-	2,411,344
Community based services	3,014,863	-	-	3,014,863
General and administrative	2,032,368	22,582	-	2,054,950
Contribution to Children's Home Society	-	3,023,838	(3,023,838)	-
Fund raising	134,797	1,277,369	(25,200)	1,386,966
Total expenses	20,203,617	4,323,789	(3,049,038)	21,478,368
Change in Net Assets Before Transfers	1,125,885	4,124,976	-	5,250,861
Transfer from Children's Home Society	(93,806)	93,806	-	-
Change in Net Assets	1,032,079	4,218,782	-	5,250,861
Net Assets, Beginning	27,832,503	66,119,134	-	93,951,637
Net Assets, Ending	\$ 28,864,582	\$ 70,337,916	\$ -	\$ 99,202,498

Children's Home Society of South Dakota
Consolidating Statement of Cash Flows
June 30, 2018

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Operating Activities				
Change in net assets	\$ 1,032,079	\$ 4,218,782	\$ -	\$ 5,250,861
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	919,070	3,526	-	922,596
Gain on disposal of equipment	(685)	-	-	(685)
Net gain on investments	(137,591)	(3,714,457)	-	(3,852,048)
Change in value of beneficial interest in assets held by others	-	(51,908)	-	(51,908)
Change in beneficial interest in trusts	(80,345)	287,614	-	207,269
Change in discount and allowance on contributions receivable	-	180,849	-	180,849
Contributions restricted for endowment including noncash gifts	(59,284)	(133,172)	-	(192,456)
Change in cash surrender value of life insurance	-	(39,751)	-	(39,751)
Change in working capital components				
Receivables	277,320	(26,167)	(11,000)	240,153
Prepaid expenses	(9,485)	(18,276)	-	(27,761)
Accounts payable	93,397	640	-	94,037
Accrued expenses	58,164	18,331	-	76,495
Annuity obligations	-	(14,623)	-	(14,623)
Deferred revenue	-	(11,000)	11,000	-
Net Cash provided by Operating Activities	<u>2,092,640</u>	<u>700,388</u>	<u>-</u>	<u>2,793,028</u>
Investing Activities				
Purchase of land, buildings and equipment	(956,999)	-	-	(956,999)
Contribution to community foundation, net of distributions received	-	(200)	-	(200)
Purchase of investments	(3,715,267)	(18,229,621)	-	(21,944,888)
Proceeds from sale and maturity of investments	2,264,571	17,542,420	-	19,806,991
Net Cash used for Investing Activities	<u>(2,407,695)</u>	<u>(687,401)</u>	<u>-</u>	<u>(3,095,096)</u>
Financing Activities				
Proceeds from contributions restricted for endowment	103,090	267,572	-	370,662
Proceeds from contributions restricted for investment in land, buildings and equipment	-	105	-	105
Net Cash provided by Financing Activities	<u>103,090</u>	<u>267,677</u>	<u>-</u>	<u>370,767</u>
Net Change in Cash and Cash Equivalents	(211,965)	280,664	-	68,699
Cash and Cash Equivalents, Beginning	<u>12,173,783</u>	<u>2,495,297</u>	<u>-</u>	<u>14,669,080</u>
Cash and Cash Equivalents, Ending	<u>\$ 11,961,818</u>	<u>\$ 2,775,961</u>	<u>\$ -</u>	<u>\$ 14,737,779</u>



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2018

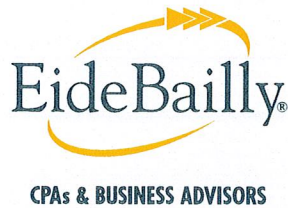
Children's Home Society of South Dakota

Children's Home Society of South Dakota

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors and Management of
Children's Home Society of South Dakota
Sioux Falls, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-A, that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Society's Response to Finding

The Society's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Society's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
October 23, 2018



**Independent Auditor's Report on Compliance for Its Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Consolidated Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors and Management
Children's Home Society of South Dakota
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Society's major federal program for the year ended June 30, 2018. The Society's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Society's compliance.

Opinion on Its Major Federal Program

In our opinion, the Society complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a significant deficiency.

The Society's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Society's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Report on Consolidated Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation as of and for the year ended June 30, 2018, and have issued our report thereon dated October 23, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
October 23, 2018

Children's Home Society of South Dakota
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>Department of Agriculture</u>			
Passed through State of South Dakota Department of Education and Cultural Affairs			
Child Nutrition Cluster			
School Breakfast Program	10.553	493200	\$ 78,023
National School Lunch Program	10.555	493200	140,857
Total Child Nutrition Cluster			<u>218,880</u>
Child and Adult Care Food Program (CACFP)	10.558	493200	44,658
Total for Department of Agriculture			<u>263,538</u>
<u>Department of Housing and Urban Development</u>			
Passed through State of South Dakota Housing Development Authority			
Emergency Solutions Grant Program	14.231	E-16DC-46-0001-15	<u>5,965</u>
<u>Department of Justice</u>			
Passed through State of South Dakota Department of Social Services			
Crime Victim Assistance	16.575	18-0815-642, 18-0815- 643, 19-0815-642, 19- 0815-643	328,465
Passed through South Dakota Network Against Family Violence and Sexual Assault			
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	2016-WR-AX-0016	6,882
Transitional Housing	16.736	2016-WH-AX-0001	3,788
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX-0003	18,941
Passed through National Children's Alliance			
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	16.758	2015-CI-FX-K0001	<u>20,494</u>
Total for Department of Justice			<u>378,570</u>
<u>Department of Health and Human Services</u>			
Passed through State of South Dakota Department of Social Services			
Family Violence Prevention and Services Act/Domestic Violence Shelter and Supportive Services	93.671	18-0815-643, 19-0815-643	<u>106,634</u>
Total Federal Financial Assistance			<u>\$ 754,707</u>

Note 1 - Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Children's Home Society of South Dakota and Children's Home Foundation (the Society) under programs of the federal government for the year ended June 30, 2018. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Society it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Society.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Society has not elected to use the 10% de minimis cost rate.

Section I - Summary of Auditor's Results

CONSOLIDATED FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Crime Victim Assistance	16.575
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Consolidated Financial Statement Findings

**Finding 2018-A Preparation of Financial Statements
Significant Deficiency**

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries to the consolidated financial statements, as well as the ability to prepare consolidated financial statements and accompanying notes to the consolidated financial statements that are materially correct.

Condition: As a result of audit procedures, an adjustment was identified that may not have been identified as a result of the Society's existing internal controls.

Cause: The allowance for uncollectible contributions reduced permanently restricted revenue rather than recording loss on uncollectible contributions receivable.

Effect: Permanently restricted contributions and loss on uncollectible contributions receivable were understated by \$177,682.

Recommendation: We recommend management review the allowance for uncollectible contributions at year end to ensure the amounts are properly reflected in the consolidated financial statements.

Views of Responsible Officials: Management is in agreement.

Section III - Federal Award Findings and Questioned Costs

**2018-001 Department of Justice and State of South Dakota Department of Social Services
CFDA #16.575, 18-0815-642, 18-0815-643, 19-0815-642, 19-0815-643
Crime Victim Assistance**

**Allowable Costs, Allowable Activities, and Matching
Material Weakness in Internal Control over Compliance**

Criteria: The Society is required to have procedures in place to assure that federal awards are expended only for allowable costs in accordance with Subpart E – Cost Principles of the Uniform Guidance. Allowable costs are supported by appropriate documentation and correctly charged as to account, amount, and period. 2 CFR 200.430(i) establishes requirements for documentation of personnel expenses. 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award

Condition: The following items were found in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI) and the Child Advocacy Center grant (CAC):

- 1) In the allocation of paid time off, two instances in which the wrong hours were used, one instance in which the wrong base hours were used and one instance in which the wrong pay rate was used (CAC)
- 2) In allocation of health insurance, four instances in which the wrong base amount was used (CI)
- 3) Five instances in which the wrong pay rate was charged to the program (both)
- 4) Timesheets did not agree to amount charged to the grant (CI):
 - a) One instance in which timesheet did not account for unpaid leave
 - b) Two instances in which nonfederal hours were not identified on the timesheet
- 5) Timesheets did not track 100% of salaried employee time in four instances. (CAC)

Cause: Tracking of grant-related payroll is a manual process which increase the likelihood of error.

Effect: Payroll costs were not properly reported by an insignificant amount

Questioned Costs: Question costs as a result of the conditions outlined above were as follows:

- 1) \$97 related to allowable costs.
- 2) \$82 related to allowable costs.
- 3) \$0 related to allowable costs as amounts were under allocated and \$70 related to matching.
- 4) \$25 related to matching.
- 5) Not determinable

Context/Sampling: A nonstatistical sample of 64 payroll transactions out of 322 total transactions were selected for testing. Of the 64 tested, 26 were tested for both allowable costs and matching, 24 were tested for allowable costs only and 14 were tested for matching only. Allowable cost testing accounted for approximately \$43,000 of \$280,000 of federal program expenditures and matching testing accounted for approximately \$16,000 of \$80,000 of federal program expenditures.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend management review the process over tracking payroll related to federal programs. Management may consider incorporating a secondary review of any manual spreadsheets or consider if the payroll can be allocated directly within the payroll system. In addition, we suggest management should ensure grant supervisors are trained on the personnel expense portion of Uniform Guidance to ensure they are meeting all requirements.

Views of Responsible Officials: Management is in agreement.

**2018-002 Department of Justice and State of South Dakota Department of Social Services
CFDA #16.575, 18-0815-642, 18-0815-643, 19-0815-642, 19-0815-643
Crime Victim Assistance**

**Cash Management and Reporting
Significant Deficiency in Internal Control over Compliance**

Criteria: CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: Approval of the June draw for the Child Advocacy Center (CAC) could not be located. In addition, all portions of the quarterly performance report are not reviewed and formally approved prior to being submitted to pass-through agency.

Cause: Supporting documentation of approval of the June draw was not retained. Several individuals are involved in putting together the various parts of the quarterly progress reporting and there is no overall documented review of amounts reported.

Effect: Inadequate documentation of controls over this area of compliance could result in a reasonable possibility that the Society would not detect errors in the normal course of performing duties and correct them in a timely manner.

Questioned Costs: None reported

Context/Sampling: Cash draws were reviewed for four months in the Society's fiscal year. Two quarters were reviewed for the progress reporting.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that procedures regarding quarterly progress reporting be reviewed to ensure they are properly designed to include an appropriate level of review independent of the individual preparing the information. In addition, we suggest that supporting documentation of such independent review related to cash draws and reporting be retained to ensure compliance with grant requirements.

Views of Responsible Officials: Management is in agreement.

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Management's Response to Auditor's Findings: Corrective Action Plan June 30, 2018

Prepared by Management of

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018

Consolidated Financial Statement Findings

Finding 2018-A

Preparation of Financial Statements

Finding Summary:

As a result of audit procedures, an adjustment was identified that may not have been identified as a result of the Society's existing internal controls.

Responsible Individuals:

Tami Gronseth, CFO & Laura Peterson, Accounting Manager

Corrective Action Plan:

Management will review all entries at year end to ensure they are properly recorded in our consolidated financial statements.

Anticipated Completion Date: Ongoing

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018

Federal Award Findings and Questioned Costs

Finding 2018-001

**Allowable Costs, Allowable Activities and Matching
Material Weakness in Internal Control over Compliance**

Federal Agency Name:

**Department of Justice and State of South Dakota Department of
Social Services**

Program Name:

Crime Victim Assistance

CFDA #

16.575

Finding Summary:

The following items were found in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI) and the Child Advocacy Center grant (CAC):

- 1) In the allocation of paid time off, two instances in which the wrong hours were used, one instance in which the wrong base hours were used and one instance in which the wrong pay rate was used (CAC)
- 2) In allocation of health insurance, four instances in which the wrong base amount was used (CI)
- 3) Five instances in which the wrong pay rate was charged to the program (both)
- 4) Timesheets did not agree to amount charged to the grant (CI):
 - a) One instance in which timesheet did not account for unpaid leave
 - b) Two instances in which nonfederal hours were not identified on the timesheet
- 5) Timesheets did not track 100% of salaried employee time in four instances. (CAC)

Responsible Individuals:

Tami Gronseth, CFO
Laura Peterson, Accounting Manager
Janice Lee, Finance Administrator (CI)
Jami Scoggins, Payroll Accountant (CAC)

Corrective Action Plan:

Management will review internal controls over the manual tracking of payroll related to federal programs and incorporate additional review procedures to improve the current independent review process.

Anticipated Completion Date: June 30, 2019

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018

Federal Award Findings and Questioned Costs - Continued

Finding 2018-002	Cash Management and Reporting Significant Deficiency in Internal Control over Compliance
Federal Agency Name:	Department of Justice and State of South Dakota Department of Social Services
Program Name:	Crime Victim Assistance
CFDA #	16.575
<i>Finding Summary:</i>	Approval of the June draw for the Child Advocacy Center (CAC) could not be located. In addition, all portions of the quarterly performance report are not reviewed and formally approved prior to being submitted to pass-through agency.
<i>Responsible Individuals:</i>	Tami Gronseth, CFO Laura Peterson, Accounting Manager Amy Carter, Children's Inn Program Director Advocacy and Prevention Director, TBD
<i>Corrective Action Plan:</i>	Management will review the procedures for submission of the quarterly performance reports to the pass-through agency and implement an independent review process. In addition, documentation of the independent review process will be retained along with the related cash draws to ensure compliance with grant requirements.
<i>Anticipated Completion Date:</i>	June 30, 2019