



SOUTH DAKOTA
DEPARTMENT
OF PUBLIC SAFETY

prevention — protection — enforcement

Children’s Home Society of South Dakota
Michelle Lavallee
409 North Western Avenue
Sioux Falls, SD 57104-5607

May 27, 2022

Dear Ms. Lavallee:

The Department of Public Safety has received your Audit Report for the audit year of 2021. That Audit Report included Findings related to the Crime Victim Assistance Grant administered through our department. Federal regulation requires that we issue a management decision within six months of acceptance of the audit report.

Finding 2021-002: The following items were identified in the sample of payroll expenditures selected for review:

- 1) Four instances were noted where hours used to allocate payroll to the grant differed from actual hours paid. This is noted as a repeat finding from prior years (Finding 2020-002).

Finding 2021-003: The following items were identified in relation to Internal Controls and award compliance:

- 1) Seven instances in which, although there support for an independent review and approval, there was no date indicating when the review and approval was performed. The auditor was unable to determine if the draw request was submitted prior to an independent review and approval being performed.
- 2) One instance where the draw request was submitted prior to an independent review and approval being performed.

It is notable that your corrective action plan indicates Children’s Home Society and Children’s Inn is aware of these issues. These have been repeated findings from the prior years, (Finding 2020-002; Finding 2019-002; and 2018-001). As part of the ongoing resolutions, your management will continue to review the process regarding tracking payroll related to federal programs and ensure that payroll records are reconciled.

Regarding Finding 2021-003, these errors appear to be procedural in nature. As we discussed by telephone, you are in the process of updating your policies to reflect these changes to your internal drawdown request processes and will provide us a copy of all updated policies. As part of our audit review, we will ensure that these recommendations are included in your policies

Sincerely,

Cora Olson

Cora Olson
Victims’ Services Program Director
South Dakota Department of Public Safety

CC: Leah Ries, DPS



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

RUSSELL A. OLSON
AUDITOR GENERAL

Date: February 1, 2022

To: SD Department of Public Safety
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, 2021

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 8 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 §200.332(d)(3)).

Please contact us if you have any questions.

Sincerely,

Russell A. Olson
Auditor General

RAO:sld

Enclosure



Consolidated Financial Statements
June 30, 2021 and 2020

Children's Home Society of South Dakota

Children's Home Society of South Dakota

Table of Contents
June 30, 2021 and 2020

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	6
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9
Supplementary Information	
Consolidating Statement of Financial Position	32
Consolidating Statement of Activities.....	33
Consolidating Statement of Cash Flows.....	34



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, 2021 and 2020, and the related consolidated statements of activities, functional expenses 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 consolidated 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 consolidated 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 consolidated 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, 2021 and 2020, 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 32 through 34 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 27, 2021 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, and 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.



Sioux Falls, South Dakota
October 27, 2021

Children's Home Society of South Dakota
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents		
Undesignated	\$ 6,487,497	\$ 7,691,542
Designated	5,867,017	4,409,668
Restricted	707,224	3,605,107
Total cash and cash equivalents	13,061,738	15,706,317
Accounts receivable	2,202,309	1,461,769
Contributions, grants and contracts receivable, net	1,282,559	5,424,968
Prepaid expenses	370,292	389,594
Investments	167,604,793	124,635,991
Beneficial interest in trusts	3,585,853	2,976,823
Beneficial interest in assets held by community foundations	4,128,713	3,322,927
Cash surrender value of life insurance	1,082,482	1,046,724
Land, buildings and equipment, net	13,043,920	12,523,302
	\$ 206,362,659	\$ 167,488,415
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 246,866	\$ 228,445
Accrued expenses	2,283,661	2,436,053
Refundable advance - Paycheck Protection Program	-	2,895,687
Annuity obligations	12,319	12,306
Total liabilities	2,542,846	5,572,491
Net Assets		
Without donor restrictions		
Undesignated	29,265,401	20,670,415
Board designated	33,064,947	25,584,831
With donor restrictions	141,489,465	115,660,678
Total net assets	203,819,813	161,915,924
	\$ 206,362,659	\$ 167,488,415

Children's Home Society of South Dakota
Consolidated Statement of Activities
Year Ended June 30, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Childcare	\$ 9,324,134	\$ -	\$ 9,324,134
Tuition	3,046,748	-	3,046,748
Contributions and bequests	2,032,931	2,747,337	4,780,268
Contributions - Paycheck Protection Program	2,895,687	-	2,895,687
Support from government agencies	5,781,393	-	5,781,393
Children's Inn contributions	-	518,895	518,895
United Way support	-	873,100	873,100
Interest on cash and cash equivalents	3,072	-	3,072
Gifts-in-kind	1,043,563	-	1,043,563
Increase in cash surrender value of life insurance	35,853	-	35,853
Distributions from perpetual trusts	36,234	-	36,234
Net gain on investments carried at fair value	5,965,516	26,530,606	32,496,122
Distributions from and change in value of beneficial interests in assets held by others	10,035	795,751	805,786
Investment income	331,484	1,404,649	1,736,133
Change in value of beneficial interest in trusts	-	609,030	609,030
Change in value of annuity obligations	(1,642)	-	(1,642)
Other state support	-	150,000	150,000
Other	487,592	-	487,592
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,953,295	(1,953,295)	-
Net assets released from restrictions - other	5,847,286	(5,847,286)	-
Total revenue, gains and other support	<u>38,793,181</u>	<u>25,828,787</u>	<u>64,621,968</u>
Expenses			
Program services expense			
Residential and education	13,155,274	-	13,155,274
Community based services	5,458,905	-	5,458,905
Total program services expense	<u>18,614,179</u>	<u>-</u>	<u>18,614,179</u>
Supporting services expense			
General and administrative	2,712,205	-	2,712,205
Fundraising and development	1,391,695	-	1,391,695
Total supporting services expense	<u>4,103,900</u>	<u>-</u>	<u>4,103,900</u>
Total expenses	<u>22,718,079</u>	<u>-</u>	<u>22,718,079</u>
Change in Net Assets	16,075,102	25,828,787	41,903,889
Net Assets, Beginning of Year	<u>46,255,246</u>	<u>115,660,678</u>	<u>161,915,924</u>
Net Assets, End of Year	<u>\$ 62,330,348</u>	<u>\$ 141,489,465</u>	<u>\$ 203,819,813</u>

Children's Home Society of South Dakota
Consolidated Statement of Activities
Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Childcare	\$ 9,647,699	\$ -	\$ 9,647,699
Tuition	3,200,456	-	3,200,456
Contributions and bequests	1,778,914	5,489,555	7,268,469
Support from government agencies	2,656,791	-	2,656,791
Children's Inn contributions	-	501,552	501,552
United Way support	-	873,100	873,100
Interest on cash and cash equivalents	26,704	-	26,704
Gifts-in-kind	1,110,349	-	1,110,349
Increase in cash surrender value of life insurance	37,779	-	37,779
Distributions from perpetual trusts	36,671	-	36,671
Net loss on investments carried at fair value	(495,817)	(3,112,833)	(3,608,650)
Distributions from and change in value of beneficial interests in assets held by others	1,017	(38,280)	(37,263)
Investment income	554,411	2,951,049	3,505,460
Change in value of beneficial interest in trusts	-	(55,541)	(55,541)
Change in value of annuity obligations	(1,751)	-	(1,751)
Other	247,833	-	247,833
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,855,410	(1,855,410)	-
Net assets released from restrictions - other	1,510,723	(1,510,723)	-
Total revenue, gains and other support	<u>22,167,189</u>	<u>3,242,469</u>	<u>25,409,658</u>
Expenses			
Program services expense			
Residential and education	12,396,933	-	12,396,933
Community based services	5,774,428	-	5,774,428
Total program services expense	<u>18,171,361</u>	<u>-</u>	<u>18,171,361</u>
Supporting services expense			
General and administrative	2,608,527	-	2,608,527
Fundraising and development	1,596,223	-	1,596,223
Total supporting services expense	<u>4,204,750</u>	<u>-</u>	<u>4,204,750</u>
Total expenses	<u>22,376,111</u>	<u>-</u>	<u>22,376,111</u>
Change in Net Assets	(208,922)	3,242,469	3,033,547
Net Assets, Beginning	<u>46,464,168</u>	<u>112,418,209</u>	<u>158,882,377</u>
Net Assets, Ending	<u>\$ 46,255,246</u>	<u>\$ 115,660,678</u>	<u>\$ 161,915,924</u>

Children's Home Society of South Dakota
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 8,467,091	\$ 3,044,171	\$ 11,511,262	\$ 1,093,512	\$ 669,643	\$ 13,274,417
Payroll taxes and benefits	2,163,330	929,072	3,092,402	253,745	186,930	3,533,077
Employment costs	18,340	8,655	26,995	3,334	22	30,351
Training and conferences	98,193	59,467	157,660	30,122	6,120	193,902
Professional services and fees	343,270	280,399	623,669	318,918	5,749	948,336
Food	456,451	53,778	510,229	-	-	510,229
Insurance	333,203	118,953	452,156	41,679	2,279	496,114
Travel	45,888	41,092	86,980	21,282	2,613	110,875
Occupancy	471,905	199,106	671,011	45,296	3,972	720,279
Goods and supplies	171,509	497,121	668,630	496,087	436,391	1,601,108
Printing and publications	230	4,259	4,489	-	60,071	64,560
Equipment maintenance and licenses	71,886	16,726	88,612	142,543	12,002	243,157
Bad debt	508	-	508	-	-	508
Depreciation	512,704	181,975	694,679	246,032	2,785	943,496
Other	766	24,131	24,897	19,655	3,118	47,670
	<u>\$ 13,155,274</u>	<u>\$ 5,458,905</u>	<u>\$ 18,614,179</u>	<u>\$ 2,712,205</u>	<u>\$ 1,391,695</u>	<u>\$ 22,718,079</u>

Children's Home Society of South Dakota
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 7,982,830	\$ 3,297,454	\$ 11,280,284	\$ 957,571	\$ 559,023	\$ 12,796,878
Payroll taxes and benefits	1,947,425	1,035,740	2,983,165	326,974	153,850	3,463,989
Employment costs	46,783	13,537	60,320	3,581	415	64,316
Training and conferences	18,049	20,801	38,850	1,964	573	41,387
Professional services and fees	321,066	298,129	619,195	340,775	2,939	962,909
Food	461,689	55,456	517,145	-	-	517,145
Insurance	330,099	124,836	454,935	36,919	7,599	499,453
Travel	21,421	73,116	94,537	5,736	3,195	103,468
Occupancy	430,852	192,344	623,196	41,892	3,087	668,175
Goods and supplies	208,666	391,366	600,032	382,014	824,094	1,806,140
Printing and publications	-	5,350	5,350	9,774	24,692	39,816
Equipment maintenance and licenses	128,084	47,272	175,356	76,311	12,374	264,041
Bad debt	-	-	-	-	-	-
Depreciation	495,802	195,454	691,256	244,625	3,033	938,914
Other	4,167	23,573	27,740	180,391	1,349	209,480
	<u>\$ 12,396,933</u>	<u>\$ 5,774,428</u>	<u>\$ 18,171,361</u>	<u>\$ 2,608,527</u>	<u>\$ 1,596,223</u>	<u>\$ 22,376,111</u>

Children's Home Society of South Dakota

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 41,903,889	\$ 3,033,547
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	943,496	938,914
Loss on disposal of equipment	15,155	4,722
Net (gain) loss on investments	(32,496,122)	3,608,650
Change in value of beneficial interest in assets held by others	(805,786)	37,263
Change in beneficial interest in trusts	(609,030)	55,541
Change in discount and allowance on contributions receivable	(395,945)	405,764
Contributions restricted for endowment including noncash gifts	(908,232)	(743,852)
Contributions restricted to building project	(253,150)	-
Change in cash surrender value of life insurance	(35,758)	(37,685)
Change in working capital components		
Receivables	3,986,790	(5,180,209)
Prepaid expenses	19,302	(25,579)
Accounts payable	(39,232)	(325,396)
Refundable advance - Paycheck Protection Program	(2,895,687)	2,895,687
Accrued expenses	(152,392)	(198,113)
Annuity obligations	13	121
Net Cash provided by Operating Activities	8,277,311	4,469,375
Investing Activities		
Purchase of land, buildings and equipment	(1,421,616)	(434,755)
Contribution to community foundation, net of distributions received	-	(2,005)
Purchase of investments	(121,524,012)	(28,049,273)
Proceeds from sale and maturity of investments	111,120,687	24,504,978
Net Cash used for Investing Activities	(11,824,941)	(3,981,055)
Financing Activities		
Proceeds from contributions restricted for endowment	852,107	747,794
Proceeds from contributions restricted for investment in land, buildings and equipment	50,944	4,260
Net Cash provided by Financing Activities	903,051	752,054
Net Change in Cash and Cash Equivalents	(2,644,579)	1,240,374
Cash and Cash Equivalents, Beginning of Year	15,706,317	14,465,943
Cash and Cash Equivalents, End of Year	\$ 13,061,738	\$ 15,706,317
Supplemental Information		
Noncash investing and financing activities		
Accounts payable for land, buildings and equipment	\$ 57,653	\$ -
Donation of securities	69,355	77,621

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 as 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, 2021 and 2020. Accounts receivable as of July 1, 2019 were \$1,337,884.

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 consolidated 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, 2021 and 2020, the allowance was \$388,000.

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.

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 consolidated statements of financial position. Net investment gain/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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 contribution with donor restrictions is recorded in the consolidated statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the consolidated 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 consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities. Upon receipt of trust distributions, contributions with donor restrictions are released to net assets without donor restrictions.

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 contribution with donor restrictions is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated 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 consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated 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 net assets with donor restrictions in the consolidated 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 consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Society 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 a contribution without donor restrictions. 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.

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 consolidated 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.

Land, Buildings and Equipment

Land, buildings and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is 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 is removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying value of land, buildings and equipment is reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2021 and 2020.

Revenue and Revenue Recognition

The Society recognizes revenue from childcare and tuition as the related services are provided. The performance obligation of delivering childcare and tuition services is simultaneously received and consumed; therefore, the revenue is recognized ratably over the course of the year. Payment for childcare and tuition is required monthly. 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, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Amounts received with conditions and restrictions are recognized as revenue that increases net assets without donor restrictions if those conditions are met and restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

A portion of the Society's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Society has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. There were no refundable advances as of June 30, 2021 and 2020. The Society received cost-reimbursable grants of approximately \$408,000 and \$412,000 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

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:

Net Assets Without Donor Restrictions - Net assets available for use in general operations. Without donor restrictions board-designated net assets consist of net assets designated by the Board of Directors for operating reserve (Note 3) and quasi-endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Society reports contributions restricted by donors as increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Amounts are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Fund Raising Costs

Fund raising costs are expensed as incurred.

Functional Allocation of Expenses

The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. These expenses are allocated on a basis determined reasonable for allocation by management. The expenses that are allocated include property insurance and utilities that are allocated on a square-footage basis. General and professional liability insurance is allocated based on the percentage of full time equivalent employees by program. Salaries, payroll taxes and benefits, and printing and publications expenses are allocated on the basis of estimates of time and effort. Equipment maintenance and food expenses have been allocated to the residential and education programs as they primarily support these programs.

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.

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 consolidated 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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Management has considered subsequent events through October 27, 2021, the date that the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,718,300	\$ 7,960,311
Accounts receivable	2,096,609	1,335,853
Contributions, grants and contracts receivable	863,642	1,679,333
Distributions from beneficial interests in trusts	169,584	162,788
Distributions from beneficial interests in assets held by community foundations	122,872	119,213
Spending-rate distributions and appropriations	<u>17,166,582</u>	<u>4,413,112</u>
	<u>\$ 27,137,589</u>	<u>\$ 15,670,610</u>

Cash and cash equivalents are available for general operating expenditures. Restricted cash is available to the extent it is expected to be used within the following fiscal year.

The endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not considered available for general expenditure, with the exception of the approved annual spending rate of 5 percent.

Board-designated endowments are considered available to the extent of the approved annual spending rate of 5 percent. Although the Society does not intend to spend from these board designated endowment amounts (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary. Balances of the board designated endowments were \$17,216,504 and \$13,522,754 as of June 30, 2021 and 2020, respectively. In addition to board designated endowments, the board has designated certain investments which were \$9,981,425 and \$7,652,410 as of June 30, 2021 and 2020, respectively.

As part of a liquidity management plan, cash in excess of daily requirements may be invested in short-term investments, certificates of deposit, or money market funds. The Board annually designates a portion of its budget to certain cash reserves. Cash reserves were \$5,867,017 and \$4,409,668 as of June 30, 2021 and 2020, respectively, and are further described in Note 3.

Note 3 - 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, 2021 and 2020 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 16).

The following summarizes designated cash and investments at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents		
Self-funded insurance reserve	\$ 390,046	\$ 436,376
Depreciation reserve	5,476,971	3,973,292
Investments		
Depreciation	250,000	1,367,469
Operating reserve	9,665,392	5,848,538
Deferred compensation	66,034	436,402
Endowment	17,216,504	13,522,754
	<u>\$ 33,064,947</u>	<u>\$ 25,584,831</u>

Note 4 - Contributions, Grants and Contracts Receivable

Contributions, grants, and contracts receivable at June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Endowment	\$ 712,620	\$ 547,069
Children's Inn	313,096	5,014,125
Government agencies	239,666	242,892
United Way - Children's Inn and Bright Start	435,666	435,316
Total contributions, grants and contracts receivable	<u>1,701,048</u>	<u>6,239,402</u>
Less		
Discount to net present value at 3.25% to 5%	(30,489)	(426,434)
Allowance for uncollectible pledges	<u>(388,000)</u>	<u>(388,000)</u>
Net contributions, grants and contracts receivable	<u>\$ 1,282,559</u>	<u>\$ 5,424,968</u>

At June 30, 2021 and 2020, one donor accounted for approximately 12% and 80%, respectively, of total contributions, grants and contracts receivable.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2021.

	<u>Due by June 30</u>	
2022		\$ 970,081
2023		145,580
2024		94,610
2025		85,777
2026		30,000
Thereafter		<u>375,000</u>
		<u><u>\$ 1,701,048</u></u>

Note 5 - Investments

The following summarizes investments by major investment type at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Without donor restrictions		
Cash equivalents and money market funds	\$ 3,537,345	\$ 2,502,570
Certificates of deposit	1,755,858	1,429,505
Corporate debt securities	11,097	290,153
Mutual funds - equity securities	22,162,904	13,131,044
Mutual funds - debt securities	8,706,767	3,666,649
Common stock	-	155,242
	<u>36,173,971</u>	<u>21,175,163</u>
With donor restrictions		
Cash equivalents and money market funds	11,842,537	8,855,731
Certificates of deposit	3,337,292	9,450,645
State and municipal government obligations	145,052	293,877
Corporate debt securities	1,978,389	1,743,378
Mutual funds - equity securities	80,375,058	65,846,060
Mutual funds - debt securities	33,752,494	17,258,532
Preferred stock	-	12,605
	<u>131,430,822</u>	<u>103,460,828</u>
	<u><u>\$ 167,604,793</u></u>	<u><u>\$ 124,635,991</u></u>

Investment income from investments is recorded net of related investment fees of \$341,258 and \$298,845 for the years ended June 30, 2021 and 2020, respectively.

Note 6 - Beneficial Interest in Trusts

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2021 and 2020:

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Beneficial interest in perpetual trusts				
Williamson Trust	\$ -	\$ 159,753	\$ 159,753	\$ 141,281
A. Coe Frankhauser Charitable Trust	-	142,704	142,704	104,819
Thelma Serr Charitable Trust	-	373,595	373,595	307,157
Hayward Memorial Trust	-	153,899	153,899	132,323
Beach Memorial Trust	-	400,197	400,197	320,173
Beneficial interest in charitable trusts				
Edith Siegrist Trust	-	210,699	210,699	184,911
Didier Charitable Annuity Trust	-	168,973	168,973	126,570
Verne and Bonnie Anderson Trust	-	1,976,033	1,976,033	1,659,589
	<u>\$ -</u>	<u>\$ 3,585,853</u>	<u>\$ 3,585,853</u>	<u>\$ 2,976,823</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.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 7 - Donated Professional Services and Materials

The Society received donated professional services and materials as follows during the years ended June 30, 2021 and 2020:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2021</u>				
Advertising and printing	\$ -	\$ -	\$ 377,502	\$ 377,502
Events	4,001	-	119,283	123,284
Professional services	4,915	15,000	-	19,915
Goods and supplies	<u>522,737</u>	<u>-</u>	<u>125</u>	<u>522,862</u>
	<u>\$ 531,653</u>	<u>\$ 15,000</u>	<u>\$ 496,910</u>	<u>\$ 1,043,563</u>
<u>June 30, 2020</u>				
Advertising and printing	\$ -	\$ -	\$ 476,991	\$ 476,991
Events	-	-	226,848	226,848
Professional services	4,288	18,500	-	22,788
Goods and supplies	<u>383,472</u>	<u>-</u>	<u>250</u>	<u>383,722</u>
	<u>\$ 387,760</u>	<u>\$ 18,500</u>	<u>\$ 704,089</u>	<u>\$ 1,110,349</u>

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 \$2,224,000 and \$2,216,000 at June 30, 2021 and 2020. The policies had cash values of \$1,082,482 and \$1,046,724 at June 30, 2021 and 2020, respectively. Investments in cash surrender value of life insurance are carried at their contract amount.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 9 - 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, 2021 and 2020, and the annual distributions for the years ended June 30, 2021 and 2020:

	2021		2020	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 114,894	\$ 3,682	\$ 95,207	\$ 3,632
Dorothy Christopherson Fund	57,595	1,846	47,727	1,821
Children's Home Society Endowment	1,132,258	36,279	938,198	35,765
Lou & Helen Madsen Fund	614,649	19,678	508,742	19,406
Larsen Memorial Fund	170,359	5,460	141,169	5,385
Raymond Daugaard Memorial Fund	86,206	2,763	71,436	2,725
Madden Family Fund	111,015	-	88,558	4,000
Children's Inn Endowment	89,777	2,628	74,155	2,593
Madsen House Endowment	134,519	-	107,307	-
Madsen Adoption and Foster Care Endowment	44,967	1,439	37,215	1,420
Excellence in Caring Endowment	38,304	1,251	31,630	1,233
Child Advocacy Center Endowment	25,895	830	21,458	819
Music Fund	20,925	671	17,340	661
Creative Arts	42,426	266	34,103	208
Carmody Family Endowment	17,253	553	14,297	545
Child's Voice Endowment	16,379	525	13,573	518
Amundson Family Endowment	50,080	1,453	41,352	1,385
The Sunshyne Fund	6,909	221	5,725	218
Solveig Steen Endowment	178,460	5,560	142,822	5,431
Elvira Larson Endowment	13,579	435	11,252	430
Links to Literacy Endowment	27,379	881	22,727	870
Profilet Endowment	85,001	2,736	70,558	2,707
	<u>\$ 3,078,829</u>	<u>\$ 89,157</u>	<u>\$ 2,536,551</u>	<u>\$ 91,772</u>

In addition, the South Dakota Community Foundation has funds totaling \$805,042 and \$683,710 at June 30, 2021 and 2020, 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 \$26,115 and \$25,253 for the years ended June 30, 2021 and 2020, respectively.

Note 10 - Land, Buildings, and Equipment

The following summarizes land, buildings and equipment at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 2,730,530	\$ 2,129,241
Buildings and improvements	19,253,309	19,206,830
Equipment and fixtures	4,818,444	4,520,090
Vehicles	730,616	730,616
Construction in progress	518,640	56,001
	<u>28,051,539</u>	<u>26,642,778</u>
Less accumulated depreciation	<u>(15,007,619)</u>	<u>(14,119,476)</u>
	<u>\$ 13,043,920</u>	<u>\$ 12,523,302</u>

Construction in progress relates to costs incurred in relation to construction of new Children's Inn facility (Note 18).

Note 11 - Fair Value of Assets and Liabilities

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.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Assets and liabilities measured at fair value on a recurring basis at June 30, 2021 and 2020 are as follows:

	2021	2020
Assets		
Certificates of deposit	\$ 5,093,150	\$ 10,880,150
State and municipal government obligations	145,052	293,877
Corporate debt securities	1,989,486	2,033,531
Mutual funds - equity securities	102,537,962	78,977,104
Mutual funds - debt securities	42,459,261	20,925,181
Common stock	-	155,242
Preferred stock	-	12,605
Beneficial interest in trusts	3,585,853	2,976,823
Beneficial interest in assets held by community foundations	4,128,713	3,322,927
	\$ 159,939,477	\$ 119,577,440
Liabilities		
Annuity obligations	\$ 12,319	\$ 12,306

The related fair values of these assets and liabilities are determined as follows at June 30, 2021:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Certificates of deposit	\$ -	\$ 5,093,150	\$ -	\$ 5,093,150
State and municipal government obligations	-	145,052	-	145,052
Corporate debt securities	-	1,989,486	-	1,989,486
Mutual funds - equity securities	102,537,962	-	-	102,537,962
Mutual funds - debt securities	42,459,261	-	-	42,459,261
Common stock	-	-	-	-
Preferred stock	-	-	-	-
Total investments valued at fair value	144,997,223	7,227,688	-	152,224,911
Beneficial interest in trusts	-	-	3,585,853	3,585,853
Beneficial interest in assets held by community foundations	-	-	4,128,713	4,128,713
	\$ 144,997,223	\$ 7,227,688	\$ 7,714,566	\$ 159,939,477
Liabilities				
Annuity obligations	\$ -	\$ -	\$ 12,319	\$ 12,319

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The related fair values of these assets and liabilities are determined as follows at June 30, 2020:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Certificates of deposit	\$ -	\$ 10,880,150	\$ -	\$ 10,880,150
State and municipal government obligations	-	293,877	-	293,877
Corporate debt securities	-	2,033,531	-	2,033,531
Mutual funds - equity securities	78,977,104	-	-	78,977,104
Mutual funds - debt securities	20,925,181	-	-	20,925,181
Common stock	155,242	-	-	155,242
Preferred stock	12,605	-	-	12,605
Total investments valued at fair value	100,070,132	13,207,558	-	113,277,690
Beneficial interest in trusts	-	-	2,976,823	2,976,823
Beneficial interest in assets held by community foundations	-	-	3,322,927	3,322,927
	\$ 100,070,132	\$ 13,207,558	\$ 6,299,750	\$ 119,577,440
 Liabilities				
Annuity obligations	\$ -	\$ -	\$ 12,306	\$ 12,306

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 and annuity obligations are estimated at the present value of the expected future cash flows. The fair value of the beneficial interests in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation.

Following is a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2021 and 2020:

	Beneficial Interest in	
	Community Foundations	Trusts
Balance, June 30, 2019	\$ 3,358,185	\$ 3,032,364
Total gains or losses		
Included in change in net assets, net of fees	81,555	(55,541)
Purchases and sales		
Purchases (contributions to the CF)	2,005	-
Sales (distributions from the CF)	(118,818)	-
Balance, June 30, 2020	3,322,927	2,976,823
Total gains or losses		
Included in change in net assets, net of fees	928,645	609,030
Purchases and sales		
Sales (distributions from the CF)	(122,859)	-
Balance, June 30, 2021	\$ 4,128,713	\$ 3,585,853

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

	Annuity Obligations
Balance, June 30, 2019	\$ 12,185
Changes in the value of annuity obligations	121
Balance, June 30, 2020	12,306
Changes in the value of annuity obligations	13
Balance, June 30, 2021	\$ 12,319

Note 12 - Paycheck Protection Program (PPP) Loan

The Society was granted a \$2,895,687 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Society has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. The Organization initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Society recognized the full amount of \$2,895,687 as contribution revenue for the year ended June 30, 2021.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 13 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose or passage of time		
Various Children's Home Society programs	\$ 2,778,919	\$ 1,483,423
Child's Voice and Child Advocacy Center	8,826	4,023
Front Line staff salaries and benefits	-	4,149,815
Children's Inn programs	7,623,220	6,686,182
Building maintenance	509	324
Black Hills programs	2,640,547	1,406,523
Creative arts	1,519	1,142
Advocacy and prevention	527,323	536,090
Children's Inn facility	6,099,949	11,346,985
United Way and other program expenses	1,105,144	980,620
	<u>20,785,956</u>	<u>26,595,127</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 17)	<u>32,809,350</u>	<u>7,782,389</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Various Children's Home Society programs	68,508,892	28,332,006
Child's Voice and Child Advocacy Center	3,370,540	3,095,203
Front Line staff salaries and benefits	-	40,000,000
Children's Inn programs	1,196,989	1,187,794
Building maintenance	293,647	293,647
Black Hills programs	412,433	412,433
Creative Arts	1,357,221	1,333,936
Mark Amundson Memorial	229,008	227,758
Advocacy and prevention	1,788,488	1,778,488
Adoption	411,765	367,522
Children's Inn new facility	5,883,335	-
Contributions and bequests receivable, net - permanently restricted to general endowment	144,518	159,896
	<u>83,596,836</u>	<u>77,188,683</u>
Not subject to spending policy or appropriation		
Beneficial interest in trusts	1,076,249	873,430
Beneficial interest in community foundations	3,221,074	3,221,049
	<u>4,297,323</u>	<u>4,094,479</u>
	<u>\$ 141,489,465</u>	<u>\$ 115,660,678</u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2021 and 2020:

	2021	2020
Satisfaction of purpose and/or time restrictions		
Black Hills programs	\$ 54,127	\$ 46,851
Children's Inn programs	626,165	494,136
Donor redirection of funds - front line staff salaries and benefits	4,126,846	-
Advocacy and prevention	13,083	270
Various Children's Home Society programs	1,027,065	969,466
	5,847,286	1,510,723
 Restricted-purpose spending rate distributions and appropriations (Note 17)	 1,953,295	 1,855,410
	\$ 7,800,581	\$ 3,366,133

Note 14 - Scholarship Contributions

The Society has received both contributions with donor restrictions and contributions without donor restrictions 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 amounts are classified as contributions in the consolidated 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 \$178,000 and \$146,000 higher for 2021 and 2020, respectively.

Note 15 - 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 16 - 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, 2021 and 2020 were 8% or \$719,664 and \$754,912, 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, 2021 and 2020, \$118,188 and \$343,769, respectively, has been accrued and recorded as a liability in the accompanying consolidated 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.

Note 17 - 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 at 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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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). 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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The following summarizes endowment net assets at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 17,216,504	\$ -	\$ 17,216,504
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Various Children's Home Society programs	-	68,653,410	68,653,410
Child's Voice and Child Advocacy Center	-	3,370,540	3,370,540
Children's Inn programs	-	1,196,989	1,196,989
Building maintenance	-	293,647	293,647
Black Hills programs	-	412,433	412,433
Creative Arts	-	1,357,221	1,357,221
Mark Amundson Memorial	-	229,008	229,008
Advocacy and prevention	-	1,788,488	1,788,488
Adoption	-	411,765	411,765
Children's Inn new facility	-	5,883,335	5,883,335
Accumulated investment gains			
Various Children's Home Society programs	-	28,604,212	28,604,212
Child's Voice and Child Advocacy Center	-	155,847	155,847
Children's Inn programs	-	1,092,272	1,092,272
Building maintenance	-	642,181	642,181
Black Hills programs	-	281,757	281,757
Creative Arts	-	817,737	817,737
Mark Amundson Memorial	-	93,049	93,049
Advocacy and prevention	-	774,787	774,787
Adoption	-	139,178	139,178
Children's Inn new facility	-	208,330	208,330
	<u>\$ 17,216,504</u>	<u>\$ 116,406,186</u>	<u>\$ 133,622,690</u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The following summarizes endowment net assets at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 13,522,754	\$ -	\$ 13,522,754
Donor restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Various Children's Home Society programs	-	28,491,902	28,491,902
Child's Voice and Child Advocacy Center	-	3,095,203	3,095,203
Front Line staff salaries and benefits	-	40,000,000	40,000,000
Children's Inn programs	-	1,187,794	1,187,794
Building maintenance	-	293,647	293,647
Black Hills programs	-	412,433	412,433
Creative Arts	-	1,333,936	1,333,936
Mark Amundson Memorial	-	227,758	227,758
Advocacy and prevention	-	1,778,488	1,778,488
Adoption	-	367,522	367,522
Accumulated investment gains			
Various Children's Home Society programs	-	3,738,518	3,738,518
Front line staff	-	382,113	382,113
Child's Voice and Child Advocacy Center	-	1,795,112	1,795,112
Children's Inn programs	-	642,234	642,234
Building maintenance	-	416,434	416,434
Black Hills programs	-	135,296	135,296
Creative Arts	-	376,157	376,157
Mark Amundson Memorial	-	26,814	26,814
Advocacy and prevention	-	246,153	246,153
Adoption	-	23,558	23,558
	<u>\$ 13,522,754</u>	<u>\$ 84,971,072</u>	<u>\$ 98,493,826</u>

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). The Society has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2021 and 2020, there were no deficiencies of this nature reported in net assets with donor restrictions.

Investment Spending Policies

The Society has adopted investment and spending policies for its endowment fund that attempt 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. 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.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 board designated 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 percentage was 5% for the years ended June 30, 2021 and 2020.

The following summarizes the change in endowment net assets for the years ended June 30, 2021 and 2020:

June 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 13,522,754	\$ 84,971,072	\$ 98,493,826
Investment return, net	4,263,647	26,820,102	31,083,749
Contributions and bequests	98,672	6,568,307	6,666,979
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,953,295)	(1,953,295)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(668,569)	-	(668,569)
Endowment net assets, end of year	\$ 17,216,504	\$ 116,406,186	\$ 133,622,690
June 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 14,204,042	\$ 86,468,191	\$ 100,672,233
Investment return, net	(81,916)	(397,726)	(479,642)
Contributions and bequests	54,732	756,017	810,749
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,855,410)	(1,855,410)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(654,104)	-	(654,104)
Endowment net assets, end of year	\$ 13,522,754	\$ 84,971,072	\$ 98,493,826

Note 18 - 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 \$1,797,288 and \$1,915,197 at June 30, 2021 and 2020, 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 \$1,165,986 and \$1,242,449 at June 30, 2021 and 2020, respectively, and is included in the reversionary interest amount above.

The Society has entered into an agreement for architectural design relating to the construction of the new Children's Inn Facility. The remaining commitment on the contract as of June 30, 2021 is \$303,833. In addition, subsequent to year end, the Society has entered into a contract for construction of the new facility in the amount not to exceed approximately \$10,950,000.

The Society has a signed agreement for employee leadership training through 2023. Remaining commitment related to the training was \$237,500 at June 30, 2021. The Society also entered into a three-year contract to upgrade software. The remaining commitment on the agreement was \$53,188 at June 30, 2021. The Society also entered into an 18-month contract for a software solution. The remaining commitment on the agreement was \$566,063 at June 30, 2021.

The Society applied for and received loan forgiveness from the SBA on its PPP loan in 2021. In accordance with the PPP loan requirements, the Society is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Society is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

COVID-19 Pandemic

During 2021 and 2020, the world-wide coronavirus pandemic impacted national and global economies. The Society is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Foundation is not known.



Supplementary Information
June 30, 2021 and 2020

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Consolidating Statement of Financial Position
June 30, 2021

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Assets				
Cash and cash equivalents				
Undesignated	\$ 4,234,503	\$ 2,252,994	\$ -	\$ 6,487,497
Designated	5,602,240	264,777	-	5,867,017
Restricted	152,568	554,656	-	707,224
	<u>9,989,311</u>	<u>3,072,427</u>	<u>-</u>	<u>13,061,738</u>
Accounts receivable	2,098,748	103,561	-	2,202,309
Contributions, grants and contracts receivable, net	884,975	397,584	-	1,282,559
Due from Children's Home Foundation	4,970,954	-	(4,970,954)	-
Prepaid expenses	368,352	1,940	-	370,292
Investments	3,682,332	163,922,461	-	167,604,793
Beneficial interest in trusts	1,209,623	2,376,230	-	3,585,853
Beneficial interest in assets held by community foundations	-	4,128,713	-	4,128,713
Cash surrender value of life insurance	-	1,082,482	-	1,082,482
Land, buildings and equipment, net	13,042,821	1,099	-	13,043,920
	<u>36,247,116</u>	<u>175,086,497</u>	<u>(4,970,954)</u>	<u>206,362,659</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	244,584	2,282	-	246,866
Accrued expenses	2,168,715	114,946	-	2,283,661
Annuity obligations	-	12,319	-	12,319
Due to Children's Home Society	-	4,970,954	(4,970,954)	-
Total liabilities	<u>2,413,299</u>	<u>5,100,501</u>	<u>(4,970,954)</u>	<u>2,542,846</u>
Net Assets				
Without donor restrictions				
Undesignated	22,543,720	6,721,681	-	29,265,401
Board designated	8,010,673	25,054,274	-	33,064,947
With donor restrictions	3,279,424	138,210,041	-	141,489,465
Total net assets	<u>33,833,817</u>	<u>169,985,996</u>	<u>-</u>	<u>203,819,813</u>
	<u>\$ 36,247,116</u>	<u>\$ 175,086,497</u>	<u>\$ (4,970,954)</u>	<u>\$ 206,362,659</u>

Children's Home Society of South Dakota
Consolidating Statement of Activities
Year Ended June 30, 2021

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Revenue, Gains and Other Support				
Child care	\$ 9,324,134	\$ -	\$ -	\$ 9,324,134
Tuition	3,046,748	-	-	3,046,748
Contributions and bequests	468,293	4,311,975	-	4,780,268
Contributions - Paycheck Protection Program	2,895,687	-	-	2,895,687
Support from government agencies	5,781,393	-	-	5,781,393
Children's Home Foundation	2,670,895	-	(2,670,895)	-
Children's Inn contributions	518,895	-	-	518,895
United Way support	873,100	-	-	873,100
Interest on cash and cash equivalents	-	3,072	-	3,072
Gifts-in-kind	412,943	630,620	-	1,043,563
Increase in cash surrender value of life insurance	-	35,853	-	35,853
Distributions from perpetual trusts	36,234	-	-	36,234
Net gain on investments carried at fair value	844,051	31,652,071	-	32,496,122
Distributions from and change in value of beneficial interests in assets held by others	-	805,786	-	805,786
Investment income	60,095	1,676,038	-	1,736,133
Change in value of beneficial interest in trusts	212,562	396,468	-	609,030
Change in value of annuity obligations	-	(1,642)	-	(1,642)
Other state support	150,000	-	-	150,000
Other	512,792	-	(25,200)	487,592
Total revenue, gains and other support	27,807,822	39,510,241	(2,696,095)	64,621,968
Expenses				
Program services				
Residential and education	13,155,274	-	-	13,155,274
Community based services	5,435,382	23,523	-	5,458,905
Contribution to Children's Home Society	-	2,670,895	(2,670,895)	-
Total program expenses	18,590,656	2,694,418	(2,670,895)	18,614,179
Supporting services expenses				
General and administrative	2,676,538	35,667	-	2,712,205
Fundraising and development	268,326	1,148,569	(25,200)	1,391,695
Total supporting services expenses	2,944,864	1,184,236	(25,200)	4,103,900
Total expenses	21,535,520	3,878,654	(2,696,095)	22,718,079
Change in Net Assets	6,272,302	35,631,587	-	41,903,889
Net Assets, Beginning of Year	27,561,515	134,354,409	-	161,915,924
Net Assets, End of Year	<u>\$ 33,833,817</u>	<u>\$ 169,985,996</u>	<u>\$ -</u>	<u>\$ 203,819,813</u>

Children's Home Society of South Dakota
Consolidating Statement of Cash Flows
Year Ended June 30, 2021

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Operating Activities				
Change in net assets	\$ 6,272,302	35,631,587	\$ -	\$ 41,903,889
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	942,450	1,046	-	943,496
Loss on disposal of equipment	15,155	-	-	15,155
Net gain on investments	(844,051)	(31,652,071)	-	(32,496,122)
Change in value of beneficial interest in assets held by others	-	(805,786)	-	(805,786)
Change in beneficial interest in trusts	(212,562)	(396,468)	-	(609,030)
Change in discount and allowance on contributions receivable	9,138	(405,083)	-	(395,945)
Contributions restricted for endowment including noncash gifts	(135,025)	(773,207)	-	(908,232)
Contributions restricted to building project	-	(253,150)	-	(253,150)
Change in cash surrender value of life insurance	-	(35,758)	-	(35,758)
Change in working capital components				
Receivables	(5,809,709)	4,895,825	4,900,674	3,986,790
Prepaid expenses	19,893	(591)	-	19,302
Accounts payable	(28,712)	(10,520)	-	(39,232)
Refundable advance - PPP	(2,895,687)	-	-	(2,895,687)
Accrued expenses	(83,263)	(69,129)	-	(152,392)
Annuity obligations	-	13	-	13
Due to Children's Home Society	-	4,900,674	(4,900,674)	-
Net Cash provided by Operating Activities	(2,750,071)	11,027,382	-	8,277,311
Investing Activities				
Purchase of land, buildings and equipment	(1,421,616)	-	-	(1,421,616)
Purchase of investments	(3,034,705)	(118,489,307)	-	(121,524,012)
Proceeds from sale and maturity of investments	4,389,197	106,731,490	-	111,120,687
Net Cash used for Investing Activities	(67,124)	(11,757,817)	-	(11,824,941)
Financing Activities				
Proceeds from contributions restricted for endowment	95,025	757,082	-	852,107
Proceeds from contributions restricted for investment in land, buildings and equipment	-	50,944	-	50,944
Net Cash provided by Financing Activities	95,025	808,026	-	903,051
Net Change in Cash and Cash Equivalents	(2,722,170)	77,591	-	(2,644,579)
Cash and Cash Equivalents, Beginning of Year	12,711,481	2,994,836	-	15,706,317
Cash and Cash Equivalents, End of Year	\$ 9,989,311	3,072,427	\$ -	\$ 13,061,738
Supplemental Information				
Noncash investing and financing activities				
Accounts payable for land, buildings and equipment	\$ 57,653	\$ -	\$ -	\$ 57,653
Donation of securities	-	69,355	-	69,355



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2021

Children's Home Society of South Dakota

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* 1

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..... 3

Compliance Report

Consolidated Schedule of Expenditures of Federal Awards 6

Notes to Consolidated Schedule of Expenditures of Federal Awards 7

Schedule of Findings and Questioned Costs 8



**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
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, 2021, 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 27, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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 2021-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's consolidated 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 consolidated financial statements. 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 consolidated 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
October 27, 2021



**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
Children's Home Society of South Dakota
Sioux Falls, South Dakota

Report on Compliance for Its 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, 2021. 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, 2021.

Report on Internal Control over Compliance

Management of the Society is responsible for establishing and maintaining effective internal control over compliance with the types of 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.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Findings 2021-002 and 2021-003 that we consider to be significant deficiencies.

The Society's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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, 2021, and have issued our report thereon dated October 27, 2021, 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 Sallee LLP

Sioux Falls, South Dakota
October 27, 2021

Children's Home Society of South Dakota
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing/Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<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	\$ 50,531
COVID-19 - School Breakfast Program	10.553	493200	24,765
National School Lunch Program	10.555	493200	93,882
COVID-19 - National School Lunch Program	10.555	493200	45,939
Total Child Nutrition Cluster			<u>215,117</u>
Child and Adult Care Food Program	10.558	493200	35,722
COVID-19 - Child and Adult Care Food Program	10.558	493200	10,184
Total Child and Adult Care Food Program			<u>45,906</u>
Total for Department of Agriculture			<u>261,023</u>
<u>Department of Justice</u>			
Passed through State of South Dakota Department of Public Safety			
Crime Victim Assistance	16.575	2021-1441-00013, 2022-1441-00011, 2021-1441-00042, 2022-1441-00022	793,560
Passed through South Dakota Network Against Family Violence and Sexual Assault			
Transitional Housing	16.736	2016-WH-AX-0001	4,497
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX-0003	35,004
Total for Department of Justice			<u>833,061</u>
<u>Department of Health & Human Services</u>			
Passed through State of South Dakota Department of Social Service			
TANF Cluster		2021-0823-301, 2022-0821-301	
Temporary Assistance for Needy Families	93.558		419,007
Passed through State of South Dakota Department of Public Safety			
COVID-19 - Family Violence Prevention & Services/ Domestic Violence Shelter and Supportive Service	93.671	SDVS-CARES-Act-006	3,712
Total for Department of Health & Human Services			<u>422,719</u>
Total Federal Financial Assistance			<u>\$ 1,516,803</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, 2021. 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. When applicable, 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	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
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>Federal Financial Assistance Listing/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

**2021-001 Preparation of Financial Statements and Schedule of Expenditures of Federal Awards and
Material Audit Adjustments
Material Weakness**

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

Condition: As auditors, we were requested to draft the consolidated financial statements and accompanying notes to the financial statements. In addition, we proposed a material audit adjustment that would not have been identified as a result of the Organization's existing internal controls; and therefore, could have resulted in a material misstatement within the consolidated financial statements. We also revised the SEFA to present COVID-19 funding separately, as required by Uniform Guidance.

Cause: The Society relies on the auditor to provide the necessary understanding and disclosure guidance in the preparation of the consolidated financial statements. COVID-19 funding was reported under the same line item as non-COVID-19 funding for applicable federal programs.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Society. The outside party does not have the same comprehensive understanding of the Society as its internal financial staff. Net assets without donor restriction were understated and net assets with donor restrictions were overstated by a material amount.

Recommendation: We recommend management continue reviewing the consolidated financial report and schedule of expenditures of federal awards prepared by the auditor. Management and the board of directors should continually be aware of the financial accounting and reporting requirements of the Society as well as changes in these requirements. It is the responsibility of the Society's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: Management is in agreement.

Section III – Federal Award Findings and Questioned Costs

2021-002 **Department of Justice and State of South Dakota Department of Public Safety**
CFDA #16.575, 2021-1441-0013, 2022-1441-00011
Crime Victim Assistance

Allowable Costs, Allowable Activities, and Matching
Significant Deficiency 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: Four instances were noted where hours used to allocate payroll to the grant differed from actual hours worked and paid.

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

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

Questioned Costs: Question costs as a result of the conditions outlined above were \$13 related to allowable costs/allowable activities and \$3 related to matching.

Context/Sampling: A nonstatistical sample of 60 payroll transactions out of 783 total transactions for allowable costs/activities and matching were selected for testing. All 60 transactions were tested for both allowable costs/activities and matching. Allowable cost/activities testing accounted for approximately \$41,020 of \$728,121 of federal program expenditures and matching testing accounted for approximately \$10,255 of \$184,053 of match expenditures.

Repeat Finding from Prior Year(s): Yes, Finding 2020-002

Recommendation: We recommend management continue to review the process over tracking payroll related to federal programs and consider incorporating a secondary review of any manual spreadsheets or consider if the payroll can be allocated directly within the payroll system.

Views of Responsible Officials: Management is in agreement.

2021-003 **Department of Justice and State of South Dakota Department of Public Safety**
CFDA #16.575, 2021-1441-0013, 2021-1441-00042, 2022-1441-00011, 2022-1441-00022
Crime Victim Assistance

Cash Management
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: The following items were identified in our sample of draw requests selected for testing for the grant:

- 1) Seven instances in which, although there support for an independent review and approval, there was no date indicating when the review and approval was performed. Auditor was unable to determine if draw request was reviewed and approved prior to submission.
- 2) One instance where the draw request was submitted prior to an independent review and approval being performed.

Cause: Turnover in the accounting department resulted in draw requests were submitted for reimbursement prior to an independent review and approval was completed.

Effect: Failure to perform timely review of draw requests 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.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend management to ensure a documented independent review and approval is completed prior to submission of the draw request.

Views of Responsible Officials: Management is in agreement.



A Place for Hope.

**BLACK HILLS
CHILDREN'S HOME**

24100 S. Rockerville Road
Rapid City, SD 57702
605.343.5422

**SIoux FALLS
CHILDREN'S HOME**

801 N. Sycamore Avenue
PO Box 1749
Sioux Falls, SD 57101
605.334.6004

CHILDREN'S INN

409 N. Western Avenue
Sioux Falls, SD 57104
605.338.0116

BRIGHT START

4402 E. 3rd Street
Sioux Falls, SD 57103
605.274.0233

**CHILD ADVOCACY
CENTER**

1330 Jolly Lane
Rapid City, SD 57703
605.716.1628

**COMMUNITY BASED
SERVICES**

1330 Jolly Lane
Rapid City, SD 57703
605.343.2811

801 N. Sycamore Avenue
PO Box 1749
Sioux Falls, SD 57101
605.334.6004

OUR MISSION

We empower children,
adults, families, and
communities to be resilient,
safe, healthy, and strong.

OUR VALUES

We are better together ■
We choose kindness ■
We are tenacious ■

chssd.org

Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2021

Prepared by Management of

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

Consolidated Financial Statement Findings

Finding 2020-001

Preparation of Financial Statements

Initial Fiscal Year Finding: 2018

Finding Summary: We requested Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Status: Ongoing. Due to cost effectiveness, we requested our auditors, Eide Bailly LLP, prepare our financial statements and the accompanying notes to the financial statements as part of the annual audit. We have designated members of management to review the drafted financial statements and accompanying notes to the consolidated financial statements.

Federal Award Findings and Questioned Costs

Finding 2020-002

**Allowable Costs, Allowable Activities and Matching
Significant Deficiency in Internal Control over Compliance**

Federal Agency Name: Department of Justice and State of South Dakota Department of Social Services / State of South Dakota Department of Public Safety

Program Name: Crime Victim Assistance

CFDA # 16.575

Initial Fiscal Year Finding: 2019

Finding Summary: The following items were found in our sample of payroll expenditures selected for testing for the grant:

- 1) One instance in which the wrong hours were used in the allocation of allowable hours and paid time off (CAC)
- 2) Fifteen instances where hours used to allocate payroll to the grant differed from actual hours worked and paid (CI)
- 3) Twenty instances where employee grant allocation was not being calculated correctly, resulting in improper weighting of grant hours (CI and CAC)

Status: Ongoing. Due to the manual nature and cost considerations, we continue to review procedures to improve controls over this grant to ensure all grant expenditures are allowable and properly calculated.

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2021

Consolidated Financial Statement Findings

Finding 2021-001 **Preparation of Financial Statements and Schedule of Expenditures of Federal Awards and Material Audit Adjustments**
Material Weakness

Finding Summary: We requested Eide Bailly LLP prepare our draft financials statements and accompanying notes to the financial statements.

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

We provided a Schedule of Expenditures of Federal Awards. During review of the schedule, Eide Bailly revised the schedule to present COVID-19 funding separately as required by Uniform Guidance.

Responsible Individuals: Joe Herdina, CFO & Jeffrey Lush, Accounting Director

Corrective Action Plan: Due to cost effectiveness, we requested our auditors, Eide Bailly LLP, prepare our financial statements and the accompanying notes to the financial statements as part of the annual audit. We have designated members of management to review the drafted financial statements and accompanying notes to the consolidated financial statements.

Management will review all entries at year end to ensure they are properly recorded in our consolidated financial statements. Additionally, management will review the Schedule of Expenditures of Federal Awards and related Uniform Guidance to ensure federal expenditures are properly reflected.

Anticipated Completion Date: Ongoing

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2021

Federal Award Findings and Questioned Costs

Finding 2021-002 **Allowable Costs, Allowable Activities and Matching
Significant Deficiency in Internal Control over Compliance**

Federal Agency Name: **Department of Justice and State of South Dakota Department of
Public Safety**

Program Name: **Crime Victim Assistance**

CFDA # **16.575**

Finding Summary: Four instances were noted where hours used to allocate payroll to
the grant differed from actual hours worked and paid.

Responsible Individuals: Joe Herdina, CFO
Jeffrey Lush, Accounting Director
Amy Carter, Program Director (CI)
Janice Lee, Finance Administrator (CI)
Tifanie Petro, Program Director (CAC)

Corrective Action Plan: The instances noted were due to rounding differences between the
hours shown on the time sheet and the notes for time tracking.
During the fiscal year, we worked with staff to ensure they are
verifying all totals in the notes agree to the total hours shown in the
time sheet. We feel the changes implemented will help resolve this
issue going forward.

Anticipated Completion Date: June 30, 2022

**Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2021**

Federal Award Findings and Questioned Costs

Finding 2021-003

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

Federal Agency Name:

Department of Justice and State of South Dakota Department of Public Safety

Program Name:

Crime Victim Assistance

CFDA #

16.575

Finding Summary:

The following items were identified in our sample of draw requests selected for testing for the grant:

- 1) Seven instances, in which, although there was support for an independent review and approval, there is not date indicating when the review and approval was performed. Auditor was unable to determine if draw request was reviewed and approved prior to submission.
- 2) One instance where the draw request was submitted prior to independent review and approval being performed.

Responsible Individuals:

Joe Herdina, CFO
Jeffrey Lush, Accounting Director
Amy Carter, Program Director (CI)
Janice Lee, Finance Administrator (CI)

Corrective Action Plan:

Independent review will be completed prior to submission of draw request. All individuals involved in the process will document their approval with initials and date of approval.

Anticipated Completion Date:

June 30, 2022