

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

March 9, 2020

Dear Ms. Lavallee:

The Department of Public Safety has received a copy of your consolidated statements of financial position as of June 30, 2019 and 2018 audit reports which included an audit finding pertinent to the Crime Victim Assistance Grant administered through our department. OMB Uniform Guidance 2 CFR §200.521 requires that we must issue a management decision within six months of acceptance of the audit report by the FAC.

Finding 2019-002: The following items were identified in the sample of payroll expenditures selected for testing for the Children's Inn (CI) grant:

- 1) In the allocation of allowable hours and paid time off, one instance in which the wrong hours were used
- 2) One instance in which the wrong pay rate was used
- 3) Five instances in which the wrong pension amount was charged to the program
- 4) Budgeted amounts were used to allocate health insurance expense throughout the year with no true-up analysis performed at year end.

Your corrective action plan indicates Children's Home Society and Children's Inn is aware of this issue. This was a repeat finding from the prior year which was Finding 2018-001. This resolution is ongoing. Due to the manual nature and cost considerations, your agency continues to review procedures to improve controls over this grant to ensure all grant expenditures are allowable and properly calculated.

The current audit report was completed October 23, 2019 for the period(s) ending June 30, 2019 and 2018 respectively. The last management decision for finding 2018-001 was issued May 20, 2019. Based on our review, it appears you are addressing and correcting the audit findings previously discussed and therefore we consider this issue to be resolved. The Department of Public Safety Victims' Services Program reviews payroll expenditures monthly prior to the reimbursement of drawdown funds. If in the future, you change your policy or procedure please provide us with a copy for our review.

Sincerely,



Cora Olson  
Victims' Service Program Manager  
South Dakota Department of Public Safety

CC: Leah Ries, DPS



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PIERRE SD 57501-5070  
(605) 773-3595

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

Date: January 3, 2020

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

Re: Audit Report on – Children's Home Society of South Dakota  
As of and for the year ended June 30, 2019  
By: Eide Bailly, LLP, CPAs

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

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

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

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

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

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA  
Auditor General

MLG:sld

Enclosure

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PROVIDER REIMBURSEMENT  
AND AUDITS



Consolidated Financial Statements  
June 30, 2019 and 2018

## Children's Home Society of South Dakota

# Children's Home Society of South Dakota

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June 30, 2019 and 2018

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Society of South Dakota and Children's Home Foundation as of June 30, 2019 and 2018, 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.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Society has adopted the provisions of Financial Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit-Entities*. Accordingly, the June 30, 2018 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

**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 33 through 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2019 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.



Sioux Falls, South Dakota  
October 23, 2019

Children's Home Society of South Dakota  
Consolidated Statements of Financial Position  
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u> (Adjusted)
<b>Assets</b>		
Cash and cash equivalents		
Undesignated	\$ 9,811,417	\$ 9,389,498
Designated	4,654,526	5,348,281
	<u>14,465,943</u>	<u>14,737,779</u>
Accounts receivable	1,337,883	1,298,004
Contributions, grants and contracts receivable, net	782,611	1,011,837
Prepaid expenses	364,015	355,204
Investments	124,700,346	64,924,084
Beneficial interest in trusts	3,032,364	3,035,874
Beneficial interest in assets held by community foundations	3,358,185	2,437,783
Cash surrender value of life insurance	1,009,039	972,875
Land, buildings and equipment, net	<u>13,028,707</u>	<u>13,552,514</u>
	<u>\$ 162,079,093</u>	<u>\$ 102,325,954</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 550,365	\$ 219,077
Accrued expenses	2,634,166	2,892,173
Annuity obligations	<u>12,185</u>	<u>12,206</u>
Total liabilities	<u>3,196,716</u>	<u>3,123,456</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	21,781,934	21,891,561
Board designated	24,682,234	24,109,667
With donor restrictions	<u>112,418,209</u>	<u>53,201,270</u>
Total net assets	<u>158,882,377</u>	<u>99,202,498</u>
	<u>\$ 162,079,093</u>	<u>\$ 102,325,954</u>

Children's Home Society of South Dakota  
Consolidated Statement of Activities  
Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Child care	\$ 9,185,814	\$ -	\$ 9,185,814
Tuition	3,099,964	-	3,099,964
Contributions and bequests	1,809,412	56,972,417	58,781,829
Support from government agencies	2,455,047	-	2,455,047
Children's Inn contributions	-	434,470	434,470
United Way support	-	861,800	861,800
Interest on cash and cash equivalents	44,867	-	44,867
Gifts-in-kind	1,280,761	-	1,280,761
Increase in cash surrender value of life insurance	36,164	-	36,164
Distributions from perpetual trusts	36,080	-	36,080
Net gain on investments carried at fair value	549,186	2,760,395	3,309,581
Distributions from and change in value of beneficial interests in assets held by others	(1,491)	35,406	33,915
Investment income	488,965	1,656,505	2,145,470
Change in value of beneficial interest in trusts	-	(3,510)	(3,510)
Change in value of annuity obligations	(1,609)	-	(1,609)
Other	261,277	-	261,277
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,786,396	(1,786,396)	-
Net assets released from restrictions - other	1,714,148	(1,714,148)	-
Total revenue, gains and other support	<u>22,744,981</u>	<u>59,216,939</u>	<u>81,961,920</u>
Expenses			
Program services expense			
Residential and education	12,549,005	-	12,549,005
Community based services	5,822,744	-	5,822,744
Total program services expense	<u>18,371,749</u>	<u>-</u>	<u>18,371,749</u>
Supporting services expense			
General and administrative	1,916,383	-	1,916,383
Fundraising and development	1,993,909	-	1,993,909
Total supporting services expense	<u>3,910,292</u>	<u>-</u>	<u>3,910,292</u>
Total expenses	<u>22,282,041</u>	<u>-</u>	<u>22,282,041</u>
Change in Net Assets	462,940	59,216,939	59,679,879
Net Assets, Beginning	<u>46,001,228</u>	<u>53,201,270</u>	<u>99,202,498</u>
Net Assets, Ending	<u>\$ 46,464,168</u>	<u>\$ 112,418,209</u>	<u>\$ 158,882,377</u>

See Notes to Consolidated Financial Statements



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

	2018 (Adjusted)		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Child care	\$ 10,162,373	\$ -	\$ 10,162,373
Tuition	3,213,062	-	3,213,062
Contributions and bequests	1,845,422	1,975,966	3,821,388
Support from government agencies	2,356,250	-	2,356,250
Children's Inn contributions	-	616,979	616,979
United Way support	-	879,840	879,840
Interest on cash and cash equivalents	18,728	-	18,728
Gifts-in-kind	596,803	-	596,803
Increase in cash surrender value of life insurance	39,751	-	39,751
Distributions from perpetual trusts	44,550	-	44,550
Net gain on investments carried at fair value	1,077,016	2,775,032	3,852,048
Distributions from and change in value of beneficial interests in assets held by others	(190)	52,098	51,908
Investment income	321,060	616,444	937,504
Change in value of beneficial interest in trusts	-	(207,269)	(207,269)
Change in value of annuity obligations	11,718	-	11,718
Other state support	-	104,834	104,834
Other	228,762	-	228,762
Donor restriction redirection	43,805	(43,805)	-
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,642,659	(1,642,659)	-
Net assets released from restrictions - other	1,923,365	(1,923,365)	-
Total revenue, gains and other support	23,525,134	3,204,095	26,729,229
Expenses			
Program services expense			
Residential and education	12,573,280	-	12,573,280
Community based services	5,699,082	-	5,699,082
Total program services expense	18,272,362	-	18,272,362
Supporting services expense			
General and administrative	1,780,100	-	1,780,100
Fundraising and development	1,425,906	-	1,425,906
Total supporting services expense	3,206,006	-	3,206,006
Total expenses	21,478,368	-	21,478,368
Change in Net Assets	2,046,766	3,204,095	5,250,861
Net Assets, Beginning	43,954,462	49,997,175	93,951,637
Net Assets, Ending	\$ 46,001,228	\$ 53,201,270	\$ 99,202,498

See Notes to Consolidated Financial Statements

**Children's Home Society of South Dakota**  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2019

	Program Expenses				Fundraising and Development	Total
	Residential and Education	Community Based Services	General and Administrative			
Salaries	\$ 7,756,784	\$ 3,082,508	\$ 10,839,292	\$ 803,612	\$ 513,047	\$ 12,155,951
Payroll taxes and benefits	2,099,711	987,118	3,086,829	290,068	134,728	3,511,625
Employment costs	25,899	11,693	37,592	3,112	339	41,043
Training and conferences	18,883	60,039	78,922	7,410	398	86,730
Professional services and fees	423,598	332,118	755,716	184,353	3,943	944,012
Food	485,090	54,413	539,503	-	-	539,503
Insurance	345,000	127,204	472,204	35,142	7,485	514,831
Travel	20,486	104,623	125,109	24,018	5,941	155,068
Occupancy	453,436	197,089	650,525	39,421	3,545	693,491
Goods and supplies	177,766	549,889	727,655	179,438	497,660	1,404,753
Printing and publications	191	8,710	8,901	29,114	620,983	658,998
Equipment maintenance and licenses	217,220	81,790	299,010	59,698	11,781	370,489
Bad debt	-	450	450	-	187,327	187,777
Depreciation	512,597	201,164	713,761	230,589	4,105	948,455
Other	12,344	23,936	36,280	30,408	2,627	69,315
	\$ 12,549,005	\$ 5,822,744	\$ 18,371,749	\$ 1,916,383	\$ 1,993,909	\$ 22,282,041

See Notes to Consolidated Financial Statements

**Children's Home Society of South Dakota**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	Program Expenses				
	Residential and Education	Community Based Services	Total	General and Administrative	Fundraising and Development
					Total
Salaries	\$ 7,934,480	\$ 3,106,762	\$ 11,041,242	\$ 765,977	\$ 508,025
Payroll taxes and benefits	2,042,662	960,725	3,003,387	276,801	130,584
Employment costs	20,676	12,559	33,235	3,752	117
Training and conferences	15,294	57,204	72,498	17,011	530
Professional services and fees	430,914	449,570	880,484	120,640	4,069
Food	479,413	51,875	531,288	-	-
Insurance	337,183	135,741	472,924	33,312	1,963
Travel	25,772	109,322	135,094	19,657	5,449
Occupancy	465,357	201,532	666,889	37,236	3,433
Goods and supplies	189,397	339,148	528,545	192,475	337,457
Printing and publications	-	4,728	4,728	16,450	233,029
Equipment maintenance and licenses	108,390	36,556	144,946	58,153	11,712
Bad debt	-	19,432	19,432	-	185,482
Depreciation	520,333	186,892	707,225	211,821	3,550
Other	3,409	27,036	30,445	26,815	506
	<u>\$ 12,573,280</u>	<u>\$ 5,699,082</u>	<u>\$ 18,272,362</u>	<u>\$ 1,780,100</u>	<u>\$ 1,425,906</u>
					<u>\$ 21,478,368</u>

See Notes to Consolidated Financial Statements

# Children's Home Society of South Dakota

## Consolidated Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 59,679,879	\$ 5,250,861
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	948,455	922,596
Gain on disposal of equipment	(10,168)	(685)
Net gain on investments	(3,309,581)	(3,852,048)
Change in value of beneficial interest in assets held by others	(33,915)	(51,908)
Change in beneficial interest in trusts	3,510	207,269
Change in discount and allowance on contributions receivable	141,696	180,849
Contributions restricted for endowment including noncash gifts	(43,572,707)	(192,456)
Contributions restricted to building project	(11,000,000)	-
Change in cash surrender value of life insurance	(36,164)	(39,751)
Change in working capital components		
Receivables	(59,604)	240,153
Prepaid expenses	(8,811)	(27,761)
Accounts payable	331,288	94,037
Accrued expenses	(258,007)	76,495
Annuity obligations	(21)	(14,623)
Net Cash provided by Operating Activities	<u>2,815,850</u>	<u>2,793,028</u>
Investing Activities		
Purchase of land, buildings and equipment	(414,480)	(956,999)
Contribution to community foundation, net of distributions received	(50)	(200)
Purchase of investments	(69,317,255)	(21,944,888)
Proceeds from sale and maturity of investments	12,850,574	19,806,991
Net Cash used for Investing Activities	<u>(56,881,211)</u>	<u>(3,095,096)</u>
Financing Activities		
Proceeds from contributions restricted for endowment	42,792,265	370,662
Proceeds from contributions restricted for investment in land, buildings and equipment	11,001,260	105
Net Cash provided by Financing Activities	<u>53,793,525</u>	<u>370,767</u>
Net Change in Cash and Cash Equivalents	(271,836)	68,699
Cash and Cash Equivalents, Beginning	<u>14,737,779</u>	<u>14,669,080</u>
Cash and Cash Equivalents, Ending	<u>\$ 14,465,943</u>	<u>\$ 14,737,779</u>

**Note 1 - Nature of Organization and Significant Accounting Policies**

**Nature of Organization**

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

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

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Children's Home Society of South Dakota and the Children's Home Foundation 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, 2019 and 2018.

### **Investments**

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

### **Contributions, Grants and Contracts Receivable**

Unconditional contributions and bequests expected to be received within one year are recorded at their net realizable value. Unconditional contributions and bequests expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions and bequests are written off when deemed uncollectable. At June 30, 2019 and 2018, the allowance was \$391,000 and \$208,673, respectively.

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

### **Beneficial Interests in Trusts**

#### *Charitable Trust Held by Others*

The Society has been named as an irrevocable beneficiary of certain charitable remainder trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Society has neither possession nor control over the assets of the trusts. At the date the Society receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. Upon receipt of trust distributions, 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 statements of activities, and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. In one instance, the donor has specifically granted the trustee the right to encroach upon principal on an as-needed basis. As a result, this perpetual trust is treated as net assets with donor restrictions in the statements of financial position.

**Beneficial Interest in Assets Held by Community Foundations**

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

**Charitable Gift Annuities**

Under charitable gift annuity contracts, the 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.

**Land, Buildings and Equipment**

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

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, 2019 and 2018.

#### **Revenue and Revenue Recognition**

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

#### **Donated Services and In-Kind Contributions**

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

#### **Net Assets**

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

*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 subject to donor-imposed restrictions. Some donor-imposed 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-imposed 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 donor restrictions 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 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 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 and wages, benefits, payroll taxes, and marketing expenses are allocated on the basis of estimates of time and effort. Maintenance and dining expenses have been allocated to the residential and education programs as they primarily support these programs.

**Income Taxes**

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

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

**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.

### **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.

### **Change in Accounting Policy**

As of July 1, 2018, the Society adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Society's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure to improve a financial statement user's ability to assess the Society's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single occasion. The Society has adopted this standard as management believes the standard improves the usefulness and understandability of the Society's financial reporting.

The Society has adopted this standard as management believes the standard improves the usefulness and understandability of the Society's financial reporting.

### **Subsequent Events**

Management has considered subsequent events through October 23, 2019, the date that the financial statements were available to be issued, in preparing the financial statements and notes thereto.

**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 statement of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 9,275,919	\$ 10,023,432
Accounts receivable	1,149,600	1,236,796
Contributions, grants and contracts receivable	625,151	605,426
Distributions from beneficial interests in trusts	149,035	168,955
Distributions from beneficial interests in assets held by community foundations	103,432	112,851
Spending-rate distributions and appropriations	4,182,455	1,893,639
	<u>\$ 15,485,592</u>	<u>\$ 14,041,099</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 4 to 5 percent.

Board-designated endowments are considered available to the extent of the approved annual spending rate of 4 to 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 \$14,204,042 and \$14,188,907 as of June 30, 2019 and 2018, respectively. In addition to board designated endowments, the board has designated certain investments which were \$5,823,666 and \$4,572,480 as of June 30, 2019 and 2018, 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 \$4,654,526 and \$5,348,281 as of June 30, 2019 and 2018, respectively, and are further described in Note 3.

# Children's Home Society of South Dakota

## Notes to Consolidated Financial Statements

June 30, 2019 and 2018

### 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, 2019 and 2018 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 15)

The following summarizes designated cash and investments at June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents		
Self-funded insurance	\$ 1,145,271	\$ 1,139,820
Depreciation	3,509,255	4,208,461
Investments:		
Depreciation	1,350,000	247,574
Operating reserve	3,785,542	3,622,497
Deferred compensation	688,124	702,408
Endowment	14,204,042	14,188,907
	<u>\$ 24,682,234</u>	<u>\$ 24,109,667</u>

### Note 4 - Contributions, Grants and Contracts Receivable

Contributions, grants, and contracts receivable at June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Endowment	\$ 549,005	\$ 655,000
Children's Inn	23,116	19,645
Bequests - without donor restrictions	-	6,728
Government agencies	189,494	143,751
United Way - Children's Inn and Bright Start	429,666	453,687
Total contributions, grants and contracts receivable	<u>1,191,281</u>	<u>1,278,811</u>
Less:		
Discount to net present value at 5% to 6%	(17,670)	(58,301)
Allowance for uncollectible pledges	<u>(391,000)</u>	<u>(208,673)</u>
Net contributions, grants and contracts receivable	<u>\$ 782,611</u>	<u>\$ 1,011,837</u>

At June 30, 2019 and 2018, three donors accounted for approximately 43% and 45%, respectively, of total contributions and bequests receivable.

Children's Home Society of South Dakota  
Notes to Consolidated Financial Statements  
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The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2019.

<u>Due by June 30:</u>	
2020	\$ 689,156
2021	56,125
2022	55,000
2023	-
2024	391,000
	<u>\$ 1,191,281</u>

**Note 5 - Investments**

The following summarizes investments by major investment type at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Without Donor Restrictions		
Cash equivalents and money market funds	\$ 482,782	\$ 633,691
Certificates of deposit	1,819,657	656,489
Corporate debt securities	128,671	67,930
Mutual funds - equity securities	13,641,777	13,690,464
Mutual funds - debt securities	3,817,164	3,576,606
Common stock	137,656	136,206
	<u>20,027,707</u>	<u>18,761,386</u>
With Donor Restrictions		
Cash equivalents and money market funds	13,813,124	1,588,883
Certificates of deposit	6,556,017	137,622
State and municipal government obligations	293,153	325,230
Corporate debt securities	2,428,332	1,690,972
Mutual funds - equity securities	64,417,501	32,147,895
Mutual funds - debt securities	17,151,917	8,140,318
Common stock	-	2,101,072
Preferred stock	12,595	30,706
	<u>104,672,639</u>	<u>46,162,698</u>
	<u>\$ 124,700,346</u>	<u>\$ 64,924,084</u>

Investment income from investments is recorded net of related investment fees of \$246,317 and \$186,761 for the years ended June 30, 2019 and 2018, respectively.

**Note 6 - Beneficial Interest in Trusts**

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2019 and 2018:

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Beneficial interest in perpetual trusts				
Williamson Trust	\$ -	\$ 147,023	\$ 147,023	\$ 148,501
A. Coe Frankhauser Charitable Trust	-	92,221	92,221	84,582
Thelma Serr Charitable Trust	-	311,660	311,660	315,315
Hayward Memorial Trust	-	133,474	133,474	130,812
Beach Memorial Trust	-	334,470	334,470	338,585
Beneficial interest in charitable trusts				
Edith Siegrist Trust	-	190,537	190,537	190,409
Didier Charitable Annuity Trust	-	109,102	109,102	110,699
Verne and Bonnie Anderson Trust	-	1,713,877	1,713,877	1,716,971
	<u>\$ -</u>	<u>\$ 3,032,364</u>	<u>\$ 3,032,364</u>	<u>\$ 3,035,874</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.

**Note 7 - Donated Professional Services and Materials**

The Society received donated professional services and materials as follows during the years ended June 30, 2019 and 2018:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2019</u>				
Advertising and printing	\$ -	\$ -	\$ 608,122	\$ 608,122
Events	-	-	180,548	180,548
Professional services	850	24,971	500	26,321
Goods and supplies	463,503	-	2,267	465,770
	<u>\$ 464,353</u>	<u>\$ 24,971</u>	<u>\$ 791,437</u>	<u>\$ 1,280,761</u>
<u>June 30, 2018</u>				
Advertising and printing	\$ -	\$ -	\$ 230,214	\$ 230,214
Events	-	-	111,447	111,447
Professional services	2,050	12,500	-	14,550
Goods and supplies	240,592	-	-	240,592
	<u>\$ 242,642</u>	<u>\$ 12,500</u>	<u>\$ 341,661</u>	<u>\$ 596,803</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 \$2,218,000 and \$2,221,000 at June 30, 2019 and 2018. The policies had cash values of \$1,009,039 and \$972,875 at June 30, 2019 and 2018, 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, 2019 and 2018

### 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, 2019 and 2018, and the annual distributions for the years ended June 30, 2019 and 2018:

	2019		2018	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 94,406	\$ 3,523	\$ 94,568	\$ 3,454
Dorothy Christopherson Fund	47,326	1,766	47,407	1,731
Children's Home Society Endowment	930,179	34,678	931,633	33,983
Lou & Helen Madsen Fund	504,460	18,824	505,325	18,452
Larsen Memorial Fund	139,981	5,224	140,221	5,121
Raymond Daugaard Memorial Fund	70,834	2,643	70,955	2,591
Madden Family Fund	88,331	5,725	90,949	4,000
Children's Inn Endowment	73,307	2,692	73,084	2,624
Madsen House Endowment	102,313	-	98,739	-
Madsen Adoption and Foster Care Endowment	36,902	1,377	36,965	1,350
Excellence in Caring Endowment	31,380	1,192	31,433	1,169
Child Advocacy Center Endowment	21,278	794	21,314	778
Music Fund	17,194	642	17,224	629
Creative Arts	32,746	1,127	31,688	1,047
Carmody Family Endowment	14,176	529	14,201	519
Child's Voice Endowment	13,459	502	13,482	492
Amundson Family Endowment	36,004	1,343	36,065	1,313
The Sunshyne Fund	5,676	212	5,686	208
Solveig Steen	145,233	5,180	140,855	4,938
Links to Literacy Endowment	22,573	870	22,639	799
Profflet Endowment	70,084	2,707	70,352	2,582
Elvira Larson Endowment	11,158	418	11,179	410
	<u>\$ 2,509,000</u>	<u>\$ 91,968</u>	<u>\$ 2,505,964</u>	<u>\$ 88,190</u>

In addition, the South Dakota Community Foundation has funds totaling \$657,879 and \$608,544 at June 30, 2019 and 2018, 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 \$24,344 and \$21,631 for the years ended June 30, 2019 and 2018, respectively.



**Note 10 - Land, Buildings, and Equipment**

The following summarizes land, buildings and equipment at June 30, 2019 and 2018:

	2019	2018
Land and improvements	\$ 2,115,914	\$ 2,082,854
Buildings and improvements	19,184,908	19,200,158
Equipment and fixtures	4,226,140	4,067,498
Vehicles	726,698	726,698
Construction in progress	-	91,124
	<u>26,253,660</u>	<u>26,168,332</u>
Less accumulated depreciation	<u>(13,224,953)</u>	<u>(12,615,818)</u>
	<u><u>\$ 13,028,707</u></u>	<u><u>\$ 13,552,514</u></u>

**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  
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Assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018 are as follows:

	2019	2018
<b>Assets</b>		
Certificates of deposit	\$ 8,375,674	\$ 794,111
State and municipal government obligations	293,153	325,230
Corporate debt securities	2,557,003	1,758,902
Mutual funds - equity securities	78,059,278	45,838,359
Mutual funds - debt securities	20,969,081	11,716,924
Common stock	137,656	2,237,278
Preferred stock	12,595	30,706
Beneficial interest in trusts	3,032,364	3,035,874
Beneficial interest in assets held by community foundations	3,358,185	2,437,783
	<u>\$ 116,794,989</u>	<u>\$ 68,175,167</u>
<b>Liabilities</b>		
Annuity obligations	<u>\$ 12,185</u>	<u>\$ 12,206</u>

The related fair values of these assets and liabilities are determined as follows at June 30, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of deposit	\$ -	\$ 8,375,674	\$ -
State and municipal government obligations	-	293,153	-
Corporate debt securities	-	2,557,003	-
Mutual funds - equity securities	78,059,278	-	-
Mutual funds - debt securities	20,969,081	-	-
Common stock	137,656	-	-
Preferred stock	12,595	-	-
Total investments valued at fair value	<u>99,178,610</u>	<u>11,225,830</u>	<u>-</u>
Beneficial interest in trusts	-	-	3,032,364
Beneficial interest in assets held by community foundations	<u>-</u>	<u>-</u>	<u>3,358,185</u>
	<u>\$ 99,178,610</u>	<u>\$ 11,225,830</u>	<u>\$ 6,390,549</u>
<b>Liabilities</b>			
Annuity obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,185</u>

Children's Home Society of South Dakota  
Notes to Consolidated Financial Statements  
June 30, 2019 and 2018

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

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

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

Following is a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2019 and 2018:

	Beneficial interest in:	
	Community Foundations	Trusts
Balance, June 30, 2017	\$ 2,385,675	\$ 3,286,949
Contribution	200	-
Adjustments to fair market value, net of distributions	<u>51,908</u>	<u>(251,075)</u>
Balance, June 30, 2018	2,437,783	3,035,874
Contribution	50	-
Adjustments to fair market value, net of distributions	<u>920,352</u>	<u>(3,510)</u>
Balance, June 30, 2019	<u>\$ 3,358,185</u>	<u>\$ 3,032,364</u>

Children's Home Society of South Dakota  
Notes to Consolidated Financial Statements  
June 30, 2019 and 2018

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

	Annuity Obligations
Balance, June 30, 2017	\$ 26,829
New annuities, net of settled liabilities	(2,905)
Changes in the value of annuity obligations	<u>(11,718)</u>
Balance, June 30, 2018	12,206
Changes in the value of annuity obligations	<u>(21)</u>
Balance, June 30, 2019	<u><u>\$ 12,185</u></u>

**Note 12 - Net Assets with Donor Restrictions**

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

	2019	2018
Subject to Expenditure for Specified Purpose or Passage of Time		
Various Children's Home Society programs	\$ 2,036,557	\$ 2,019,444
Child's Voice and Child Advocacy Center	5,999	4,622
Front Line staff salaries and benefits	4,100,404	-
Children's Inn programs	1,678,342	1,633,614
Building maintenance	906	685
Black Hills programs	1,409,645	1,285,597
Creative arts	1,949	1,411
Advocacy and prevention	529,158	520,997
Children's Inn facility	11,135,295	-
United Way and other program expenses	947,740	968,356
	<u>21,845,995</u>	<u>6,434,726</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 16)	<u>10,045,351</u>	<u>7,891,209</u>
Subject to NFP endowment spending policy and appropriation		
Various Children's Home Society programs	27,923,829	27,382,541
Child's Voice and Child Advocacy Center	2,893,247	2,548,444
Front Line staff salaries and benefits	40,000,000	-
Children's Inn programs	1,142,319	1,116,866
Building maintenance	293,647	293,647
Black Hills programs	387,433	373,683
Creative Arts	1,327,686	1,314,565
Mark Amundson Memorial	217,758	217,758
Advocacy and prevention	1,758,663	1,733,663
Adoption	321,472	269,196
Restricted cash	450	1,800
Contributions and bequests receivable, net - permanently restricted to general endowment	<u>156,336</u>	<u>404,026</u>
	<u>76,422,840</u>	<u>35,656,189</u>
Not subject to spending policy or appropriation		
Beneficial interest in trusts	885,374	886,983
Beneficial interest in community foundations	<u>3,218,649</u>	<u>2,332,163</u>
	<u>4,104,023</u>	<u>3,219,146</u>
	<u><u>\$ 112,418,209</u></u>	<u><u>\$ 53,201,270</u></u>

Children's Home Society of South Dakota  
Notes to Consolidated Financial Statements  
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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, 2019 and 2018:

	2019	2018
Expiration of time restriction	\$ 187,327	\$ 177,682
Satisfaction of purpose and/or time restrictions		
Black Hills programs	36,694	28,577
Children's Inn programs	485,689	624,704
Employee retention and recruitment	-	104,834
Advocacy and prevention	-	12,578
Various Children's Home Society programs	1,004,438	974,990
	1,714,148	1,923,365
Restricted-purpose spending rate distributions and appropriations (Note 16)	1,786,396	1,642,659
	<u>\$ 3,500,544</u>	<u>\$ 3,566,024</u>

**Note 13 - 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 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 \$193,000 and \$160,000 higher for 2019 and 2018, respectively.

**Note 14 - 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 15 - 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, 2019 and 2018 were 8% or \$719,036 and \$695,015, 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, 2019 and 2018, \$546,538 and \$511,937, respectively, has been accrued and recorded as a liability in the accompanying financial statements. The Society owns life insurance policies on one of these individuals. The Society will receive the death benefits under the terms of the agreement.

The Society sponsors a self-insured health plan and a self-insured dental plan for all its employees who meet eligibility requirements. A portion of the cost of the plans is withheld from the participating employee's wages and the remainder is paid by the Society. An estimated liability for health and dental claims incurred but not paid at June 30, 2019 and 2018, of approximately \$136,000 and \$98,000, respectively, has been accrued based on past claims experience and management's assessment of future claims.

#### **Note 16 - Endowment Funds**

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

#### **Interpretation of Relevant Law**

The Society's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as 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, 2019 and 2018

The following summarizes endowment net assets at June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 14,204,042	\$ -	14,204,042
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	-	28,080,615	28,080,615
Child's Voice and Child Advocacy Center	-	2,893,247	2,893,247
Front Line staff salaries and benefits	-	40,000,000	40,000,000
Children's Inn programs	-	1,142,319	1,142,319
Building maintenance	-	293,647	293,647
Black Hills programs	-	387,433	387,433
Creative Arts	-	1,327,686	1,327,686
Mark Amundson Memorial	-	217,758	217,758
Advocacy and prevention	-	1,758,663	1,758,663
Adoption	-	321,472	321,472
Accumulated investment gains			
Various Children's Home Society programs	-	5,452,008	5,452,008
Child's Voice and Child Advocacy Center	-	504,728	504,728
Front Line staff salaries and benefits	-	1,923,128	1,923,128
Children's Inn programs	-	729,622	729,622
Building maintenance	-	418,446	418,446
Black Hills programs	-	157,506	157,506
Creative Arts	-	461,414	461,414
Mark Amundson Memorial	-	38,337	38,337
Advocacy and prevention	-	332,866	332,866
Adoption	-	27,296	27,296
	<u>\$ 14,204,042</u>	<u>\$ 86,468,191</u>	<u>\$ 100,672,233</u>



# Children's Home Society of South Dakota

## Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following summarizes endowment net assets at June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 14,188,907	\$ -	\$ 14,188,907
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	-	27,788,367	27,788,367
Child's Voice and Child Advocacy Center	-	2,548,444	2,548,444
Children's Inn programs	-	1,116,866	1,116,866
Building maintenance	-	293,647	293,647
Black Hills programs	-	373,683	373,683
Creative Arts	-	1,314,565	1,314,565
Mark Amundson Memorial	-	217,758	217,758
Advocacy and prevention	-	1,733,663	1,733,663
Adoption	-	269,196	269,196
Accumulated investment gains			
Various Children's Home Society programs	-	5,443,615	5,443,615
Child's Voice and Child Advocacy Center	-	450,552	450,552
Children's Inn programs	-	662,456	662,456
Building maintenance	-	387,712	387,712
Black Hills programs	-	155,225	155,225
Creative Arts	-	453,474	453,474
Mark Amundson Memorial	-	34,455	34,455
Advocacy and prevention	-	291,837	291,837
Adoption	-	11,883	11,883
	<u>\$ 14,188,907</u>	<u>\$ 43,547,398</u>	<u>\$ 57,736,305</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, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018.

The following summarizes the change in endowment net assets for the years ended June 30, 2019 and 2018:

June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 14,188,907	\$ 43,547,398	\$ 57,736,305
Investment return, net	629,729	3,940,538	4,570,267
Contributions and bequests	26,169	40,766,651	40,792,820
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,786,396)	(1,786,396)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(640,763)	-	(640,763)
Endowment net assets, end of year	<u>\$ 14,204,042</u>	<u>\$ 86,468,191</u>	<u>\$ 100,672,233</u>
June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 13,545,652	\$ 40,896,252	\$ 54,441,904
Investment return, net	1,063,270	3,201,892	4,265,162
Contributions and bequests	171,449	1,221,913	1,393,362
Donor restriction redirection	-	(130,000)	(130,000)
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,642,659)	(1,642,659)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(591,464)	-	(591,464)
Endowment net assets, end of year	<u>\$ 14,188,907</u>	<u>\$ 43,547,398</u>	<u>\$ 57,736,305</u>

### Note 17 - Commitments and Contingencies

Property acquired with federal grants is considered owned by the Society while used in the program for which it was purchased or in other future authorized programs; however, the United States has reversionary interests in certain property. The property's disposition as well as the ownership of any proceeds there from is subject to federal regulations. The total book value of property and equipment in which the United States has reversionary interest is \$2,031,106 and \$2,157,167 at June 30, 2019 and 2018, 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 \$1,316,913 and \$1,401,328 at June 30, 2019 and 2018, respectively, and is included in the reversionary interest amount above.

### Note 18 - Adjustment Resulting from Change in Accounting Policy

As disclosed in Note 1, the Society adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of the Financial Statements of Not-For-Profit Entities*, as of July 1, 2018. As part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Society's June 30, 2018 financial statements.

The effect on the Society's statement of financial position as of June 30, 2018:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Cash and cash equivalents			
Undesignated	\$ 10,529,318	\$ (1,139,820)	\$ 9,389,498
Designated	4,208,461	1,139,820	5,348,281
Net Assets			
Unrestricted			
Undesignated	25,218,610	(25,218,610)	-
Designated	20,782,618	(20,782,618)	-
Temporarily restricted	14,325,935	(14,325,935)	-
Permanently restricted	38,875,335	(38,875,335)	-
Without donor restrictions			
Undesignated	-	21,891,561	21,891,561
Board designated	-	24,109,667	24,109,667
With donor restrictions	-	53,201,270	53,201,270

# Children's Home Society of South Dakota

## Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The effect on the Society's statement of activities as of June 30, 2018:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
<b>Net Assets, Beginning</b>			
Unrestricted	\$ 43,954,462	\$ (43,954,462)	\$ -
Temporarily restricted	12,244,587	(12,244,587)	-
Permanently restricted	37,752,588	(37,752,588)	-
Without donor restrictions	-	43,954,462	43,954,462
With donor restrictions	-	49,997,175	49,997,175
<b>Net Assets, End of Year</b>			
Unrestricted	46,001,228	(46,001,228)	-
Temporarily restricted	14,325,935	(14,325,935)	-
Permanently restricted	38,875,335	(38,875,335)	-
Without donor restrictions	-	46,001,228	46,001,228
With donor restrictions	-	53,201,270	53,201,270



Supplementary Information  
June 30, 2019 and 2018

## Children's Home Society of South Dakota

**Children's Home Society of South Dakota**  
**Consolidating Statement of Financial Position**  
**June 30, 2019**

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents				
Undesignated	\$ 7,270,554	\$ 2,540,863	\$ -	\$ 9,811,417
Designated	4,320,069	334,457	-	4,654,526
	<u>11,590,623</u>	<u>2,875,320</u>	<u>-</u>	<u>14,465,943</u>
Accounts receivable	1,162,291	175,592	-	1,337,883
Contributions, grants and contracts receivable, net	619,160	163,451	-	782,611
Due from Children's Home Foundation	18,615	-	(18,615)	-
Prepaid expenses	362,700	1,315	-	364,015
Investments	4,328,012	120,372,334	-	124,700,346
Beneficial interest in trusts	984,018	2,048,346	-	3,032,364
Beneficial interest in assets held by community foundations	-	3,358,185	-	3,358,185
Cash surrender value of life insurance	-	1,009,039	-	1,009,039
Land, buildings and equipment, net	<u>13,024,922</u>	<u>3,785</u>	<u>-</u>	<u>13,028,707</u>
	<u>\$ 32,090,341</u>	<u>\$ 130,007,367</u>	<u>\$ (18,615)</u>	<u>\$ 162,079,093</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 539,849	\$ 10,516	\$ -	\$ 550,365
Accrued expenses	2,469,371	164,795	-	2,634,166
Annuity obligations	-	12,185	-	12,185
Due to Children's Home Society	<u>-</u>	<u>18,615</u>	<u>(18,615)</u>	<u>-</u>
Total liabilities	<u>3,009,220</u>	<u>206,111</u>	<u>(18,615)</u>	<u>3,196,716</u>
<b>Net Assets</b>				
Without donor restrictions				
Undesignated	18,910,436	2,871,498	-	21,781,934
Board designated	7,856,070	16,826,164	-	24,682,234
With donor restrictions	<u>2,314,615</u>	<u>110,103,594</u>	<u>-</u>	<u>112,418,209</u>
Total net assets	<u>29,081,121</u>	<u>129,801,256</u>	<u>-</u>	<u>158,882,377</u>
	<u>\$ 32,090,341</u>	<u>\$ 130,007,367</u>	<u>\$ (18,615)</u>	<u>\$ 162,079,093</u>

**Children's Home Society of South Dakota**  
**Consolidating Statement of Activities**  
**Year Ended June 30, 2019**

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Revenue, Gains and Other Support				
Child care	\$ 9,185,814	\$ -	\$ -	\$ 9,185,814
Tuition	3,099,964	-	-	3,099,964
Contributions and bequests	184,039	58,597,790	-	58,781,829
Support from government agencies	2,455,047	-	-	2,455,047
Children's Home Foundation	3,402,099	-	(3,402,099)	-
Children's Inn contributions	434,470	-	-	434,470
United Way support	861,800	-	-	861,800
Interest on cash and cash equivalents	-	44,867	-	44,867
Gifts-in-kind	465,382	815,379	-	1,280,761
Increase in cash surrender value of life insurance	-	36,164	-	36,164
Distributions from perpetual trusts	36,080	-	-	36,080
Net gain on investments carried at fair value	92,032	3,217,549	-	3,309,581
Distributions from and change in value of beneficial interests in assets held by others	-	33,915	-	33,915
Investment income	268,011	1,877,459	-	2,145,470
Change in value of beneficial interest in trusts	3,701	(7,211)	-	(3,510)
Change in value of annuity obligations	-	(1,609)	-	(1,609)
Other state support	-	-	-	-
Other	286,477	-	(25,200)	261,277
Total revenue, gains and other support	<u>20,774,916</u>	<u>64,614,303</u>	<u>(3,427,299)</u>	<u>81,961,920</u>
Expenses				
Program services				
Residential and education	12,549,005	-	-	12,549,005
Community based services	5,799,569	23,175	-	5,822,744
Contribution to Children's Home Society	-	3,402,099	(3,402,099)	-
Total program expenses	<u>18,348,574</u>	<u>3,425,274</u>	<u>(3,402,099)</u>	<u>18,371,749</u>
Supporting services expenses				
General and administrative	1,864,683	51,700	-	1,916,383
Fundraising and development	345,120	1,673,989	(25,200)	1,993,909
Total supporting services expenses	<u>2,209,803</u>	<u>1,725,689</u>	<u>(25,200)</u>	<u>3,910,292</u>
Total expenses	<u>20,558,377</u>	<u>5,150,963</u>	<u>(3,427,299)</u>	<u>22,282,041</u>
Change in Net Assets	216,539	59,463,340	-	59,679,879
Net Assets, Beginning	<u>28,864,582</u>	<u>70,337,916</u>	-	<u>99,202,498</u>
Net Assets, Ending	<u>\$ 29,081,121</u>	<u>\$ 129,801,256</u>	<u>\$ -</u>	<u>\$ 158,882,377</u>

# Children's Home Society of South Dakota

## Consolidating Statement of Cash Flows

June 30, 2019

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
<b>Operating Activities</b>				
Change in net assets	\$ 216,539	\$ 59,463,340	\$ -	\$ 59,679,879
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	945,740	2,715	-	948,455
Gain on disposal of equipment	(10,168)	-	-	(10,168)
Net gain on investments	(92,032)	(3,217,549)	-	(3,309,581)
Change in value of beneficial interest in assets held by others	-	(33,915)	-	(33,915)
Change in beneficial interest in trusts	(3,701)	7,211	-	3,510
Change in discount and allowance on contributions receivable	-	141,696	-	141,696
Contributions restricted for endowment including noncash gifts	(73,704)	(43,499,003)	-	(43,572,707)
Contributions restricted to building project	-	(11,000,000)	-	(11,000,000)
Change in cash surrender value of life insurance	-	(36,164)	-	(36,164)
Change in working capital components				
Receivables	95,947	(114,103)	(41,448)	(59,604)
Prepaid expenses	(32,488)	23,677	-	(8,811)
Accounts payable	322,870	8,418	-	331,288
Accrued expenses	(259,185)	1,178	-	(258,007)
Annuity obligations	-	(21)	-	(21)
Due to Children's Home Society	-	(41,448)	41,448	-
<b>Net Cash provided by Operating Activities</b>	<b>1,109,818</b>	<b>1,706,032</b>	<b>-</b>	<b>2,815,850</b>
<b>Investing Activities</b>				
Purchase of land, buildings and equipment	(413,532)	(948)	-	(414,480)
Contribution to community foundation, net of distributions received	-	(50)	-	(50)
Purchase of investments	(1,970,783)	(67,346,472)	-	(69,317,255)
Proceeds from sale and maturity of investments	829,598	12,020,976	-	12,850,574
<b>Net Cash used for Investing Activities</b>	<b>(1,554,717)</b>	<b>(55,326,494)</b>	<b>-</b>	<b>(56,881,211)</b>
<b>Financing Activities</b>				
Proceeds from contributions restricted for endowmen	73,704	42,718,561	-	42,792,265
Proceeds from contributions restricted for investment in land, buildings and equipment	-	11,001,260	-	11,001,260
<b>Net Cash provided by Financing Activities</b>	<b>73,704</b>	<b>53,719,821</b>	<b>-</b>	<b>53,793,525</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(371,195)</b>	<b>99,359</b>	<b>-</b>	<b>(271,836)</b>
<b>Cash and Cash Equivalents, Beginning</b>	<b>11,961,818</b>	<b>2,775,961</b>	<b>-</b>	<b>14,737,779</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 11,590,623</b>	<b>\$ 2,875,320</b>	<b>\$ -</b>	<b>\$ 14,465,943</b>





Federal Awards Reports in Accordance  
with the Uniform Guidance  
June 30, 2019

Children's Home Society of South  
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Children's Home Society of South Dakota

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June 30, 2019

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Society's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

**The Society's Response to Finding**

The Society's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Society's response was not subjected to the auditing procedures applied in the audit of the 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.

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

Sioux Falls, South Dakota  
October 23, 2019



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

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

**Report on Compliance for 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, 2019. 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, 2019.

### **Report on Internal Control over Compliance**

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

*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 a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2019-002 that we consider to be a significant deficiency.

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, 2019, and have issued our report thereon dated October 23, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
October 23, 2019

Children's Home Society of South Dakota  
Consolidated Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>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	\$ 72,984
National School Lunch Program	10.555	493200	131,278
Total Child Nutrition Cluster			<u>204,262</u>
Child and Adult Care Food Program (CACFP)	10.558	493200	<u>42,848</u>
Total for Department of Agriculture			<u>247,110</u>
<u>Department of Justice</u>			
Passed through State of South Dakota Department of Social Services			
Crime Victim Assistance	16.575	19-0815-642, 19-0815-643	525,442
Passed through State of South Dakota Department of Public Safety			
Crime Victim Assistance	16.575	2020-1441- 00013, 2020-1441-00017	53,339
Total Crime Victim Assistance			<u>578,781</u>
Passed through South Dakota Network Against Family Violence and Sexual Assault			
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	2016-WR-AX-0016	5,207
Transitional Housing	16.736	2016-WH-AX-003	7,533
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX-0003	<u>22,718</u>
Total for Department of Justice			<u>614,239</u>
Total Federal Financial Assistance			<u>\$ 861,349</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, 2019. 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.

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**Section I – Summary of Auditor’s Results**

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**CONSOLIDATED FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	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>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

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**Section II – Consolidated Financial Statement Findings**

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**2019-001      Preparation of Financial Statements  
Significant Deficiency**

*Criteria:* Proper controls over financial reporting include the ability to prepare consolidated financial statements and accompanying notes to the financial statements.

*Condition:* The auditor was requested to prepare the consolidated financial statements and footnote disclosures.

*Cause:* The Organization relies on the auditor to provide the necessary understanding and disclosure guidance in the preparation of the consolidated financial statements.

*Effect:* The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have the same comprehensive understanding of the Organization as its internal financial staff. It is the responsibility of the Organization'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.

*Recommendation:* We recommend management continue reviewing the consolidated financial report prepared by the auditor. Management and the board of directors should continually be aware of the financial accounting and reporting requirements of the Organization as well as changes in these requirements.

*Views of Responsible Officials:* Management has chosen to hire Eide Bailly, a public accounting firm, to prepare the consolidated financial statements and accompanying notes to the consolidated financial statements. Management and the board of directors will review for propriety the draft consolidated financial statements and accompanying notes to the consolidated financial statements.

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Section III – Federal Award Findings and Questioned Costs

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2019-002      Department of Justice and State of South Dakota Department of Social Services/State of South Dakota Department of Public Safety  
CFDA #16.575, 19-0815-642, 19-0815-643, 2020-1441-00013, 2020-1441-00017  
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:* The following items were identified in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI):

- 1) In the allocation of allowable hours and paid time off, one instance in which the wrong hours were used
- 2) One instance in which the wrong pay rate was used
- 3) Five instances in which the wrong pension amount was charged to the program
- 4) Budgeted amounts were used to allocate health insurance expense throughout the year with no true-up analysis performed at year end.

*Cause:* Tracking of grant-related payroll is a manual process which increase 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 as follows:

- 1) \$20 related to allowable costs and \$5 related to matching
- 2) \$72 related to allowable costs and \$18 related to matching
- 3) None as in total the amounts were undercharged to the program
- 4) None as the budgeted amounts charged to the program were lower than actual total costs.

*Context/Sampling:* A nonstatistical sample of 60 payroll transactions out of 537 total transactions for allowable costs and 463 total transactions for matching were selected for testing. Of the 60 tested, 57 were tested for both allowable costs and matching and 3 were tested for allowable costs only. Allowable cost testing accounted for approximately \$60,000 of \$549,000 of federal program expenditures and matching testing accounted for approximately \$14,000 of \$141,000 of match expenditures.

*Repeat Finding from Prior Year(s):* Yes, Finding 2018-001

*Recommendation:* We recommend management review the process over tracking payroll related to federal programs and consider implementing same methodology for both grants (CAC and CI). Management may also contemplate incorporating a secondary review of any manual spreadsheets or consider if the payroll can be allocated directly within the payroll system. In addition, we suggest management should ensure grant supervisors are trained on the personnel expense portion of Uniform Guidance to ensure they are meeting all requirements.

*Views of Responsible Officials:* Management is in agreement.

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## Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2019

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, 2019**

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**Consolidated Financial Statement Findings**

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**Finding 2018-A**

**Preparation of Financial Statements**

*Initial Fiscal Year Finding:*

2018

*Finding Summary:*

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

*Status:*

Resolved June 30, 2019. New internal controls have been implemented for additional review of year end journal entries. No adjustments were identified during the audit for the year ended June 30, 2019.

**Children's Home Society of South Dakota**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2019**

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**Federal Award Findings and Questioned Costs**

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**Finding 2018-001**                      **Allowable Costs, Allowable Activities and Matching  
Material Weakness in Internal Control over Compliance**

**Federal Agency Name:**              **Department of Justice and State of South Dakota**  
**Department of**                              **Social Services**

**Program Name:**                      **Crime Victim Assistance**

**CFDA #**                                      **16.575**

*Initial Fiscal Year Finding:*              2018

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

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

*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**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2019**

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**Federal Award Findings and Questioned Costs - Continued**

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<b>Finding 2018-002</b>	<b>Cash Management and Reporting Significant Deficiency in Internal Control over Compliance</b>
<b>Federal Agency Name:</b>	<b>Department of Justice and State of South Dakota Department of Social Services</b>
<b>Program Name:</b>	<b>Crime Victim Assistance</b>
<b>CFDA #</b>	<b>16.575</b>
<i>Initial Fiscal Year Finding:</i>	2018
<i>Finding Summary:</i>	Approval of the June draw for the Child Advocacy Center (CAC) could not be located. In addition, all portions of the quarterly performance report are not reviewed and formally approved prior to being submitted to pass-through agency. Advocacy and Prevention Director, TBD
<i>Status:</i>	Resolved June 30, 2019. Management has implemented new review procedures for submission of quarterly performance reports submitted to pass-through agencies.  Documentation of independent review is being retained for all quarterly reporting and cash draw down requests to ensure compliance with grant requirements.

**Children's Home Society of South Dakota**  
**Corrective Action Plan**  
**Year Ended June 30, 2019**

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**Consolidated Financial Statement Findings**

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**Finding 2019-001**

**Preparation of Financial Statements**

*Finding Summary:*

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

*Responsible Individuals:*

Tami Gronseth, CFO & Laura Peterson, Accounting Manager

*Corrective Action Plan:*

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

*Anticipated Completion Date:* Ongoing

**Children's Home Society of South Dakota**  
**Corrective Action Plan**  
**Year Ended June 30, 2019**

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**Federal Award Findings and Questioned Costs**

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**Finding 2019-002**

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

**Federal Agency Name:**

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

**Program Name:**

**Crime Victim Assistance**

**CFDA #**

**16.575**

*Finding Summary:*

The following items were found in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI)

1. In the allocation of allowable hours and paid time off, one instance in which the wrong hours were used
2. One instance in which the wrong pay rate was used
3. Five instances in which the wrong pension amount was charged to the program
4. Budgeted amounts were used to allocate health insurance expense throughout the year with no true-up analysis performed at year end.

*Responsible Individuals:*

Amy Carter, Program Director (CI)  
Janice Lee, Finance Administrator (CI)

*Corrective Action Plan:*

Management will review the process over tracking payroll related to federal programs. We will work to implement a consistent methodology across both grants. This will include the implementation of secondary review of spreadsheets used to calculate payroll amounts for the grant and completion of true-up analysis, if applicable.

*Anticipated Completion Date:* June 30, 2020