

DEPARTMENT OF SOCIAL SERVICES

OFFICE OF THE SECRETARY

700 GOVERNORS DRIVE

PIERRE, SD 57501-2291

PHONE: 605-773-3165

FAX: 605-773-4855

WEB: dss.sd.gov



May 20, 2020

Betty Oldenkamp
Lutheran Social Services of South Dakota
705 E 41st St
Sioux Falls, SD 57105-6048

Dear Ms. Oldenkamp:

The Department has reviewed and concurs with findings 2019-001, 2019-002 and 2019-003 from the Single Audit for Lutheran Social Services for the fiscal year ended June 30, 2019. The Department considers LSS's corrective action as proposed in the management response portion of the Single Audit Report as having taken the necessary steps to correct the deficiencies if fully implemented.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'Laurie Mikkonen'. The signature is fluid and cursive, with the first name 'Laurie' being more prominent than the last name 'Mikkonen'.

Laurie Mikkonen
Chief Financial Officer

cc: DSS CPS

February 10, 2020

SD Department of Social Services
Office of Provider Reimbursement & Audits
Sarah Burt
700 Governors Drive
Pierre, SD 57501

Sarah,

Enclosed is the LSS management response to your letter dated January 17th, 2020. LSS is in agreement with the findings detailed in our Audited Financial Statements. We have taken steps to correct the findings, and are continually working to improve our processes and procedures to ensure compliance with our funding requirements.

Sincerely,


Betty Oldenkamp
President/CEO

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PROVIDER REIMBURSEMENT
AND AUDITS

Lutheran Social Services Management Response to SD DSS Audit Review

Finding 2019-001 Preparation of Financial Statements and Material Audit Adjustment

Finding Summary: As a result of audit procedures, a material audit adjustment was proposed relating to the classification of net assets between net assets with restrictions and net assets without restriction that would not have been identified as a result of the Organization's existing internal controls. In addition, the Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes.

Corrective Action Plan: Management is in agreement with the audit finding. Management will review the year-end journal entry process to eliminate the need for similar audit entries in future periods. LSS will continue to request that the auditors draft the consolidated financial statements and accompanying notes, due to cost and time constraints.

Department's Response: Please provide an updated policies and procedures document for the year end journal entry process and how you will classify a restricted net asset versus an unrestricted net asset.

LSS Response: Updated procedures are attached. All donor or grantor funds will be evaluated when received to determine if there are time or purpose restrictions on the funds. Funds that are not restricted but are board designated will be tracked separately and recorded as without donor restrictions-board designated for financial reporting purposes.

Finding 2019-002 Segregation of Duties

Finding Summary: The Organization did not have an internal control system to allow for proper segregation of duties across all areas of the accounting function.

Corrective Action Plan: Management is in agreement with the audit finding. Management will implement a quarterly checklist to review reconciliations of balance sheet accounts and key income statement accounts for accuracy.

Department's Response: Please submit the checklist and updated internal controls or procedures that show what reviews Management will do to determine if an account is subject to problems and if a secondary review is needed. Additionally, please submit an organizational chart.

LSS Response: Updated procedures, the new checklist, and organizational chart are attached. The finding is related to not having documentation of the balance sheet being reviewed on a quarterly basis. While this is done by the VP of Finance & Support Services, and the board of directors reviews the balance sheet quarterly, Eide Bailly felt a documented checklist would be more appropriate. The checklist may be adjusted as we determine what is appropriate to include on it, but in the current format each balance sheet account (some accounts may be combined as a group, like petty cash

accounts) will be reviewed and signed off on by the Director of Accounting and the VP of Finance & Support Services.

Finding 2019-003 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Finding Summary:

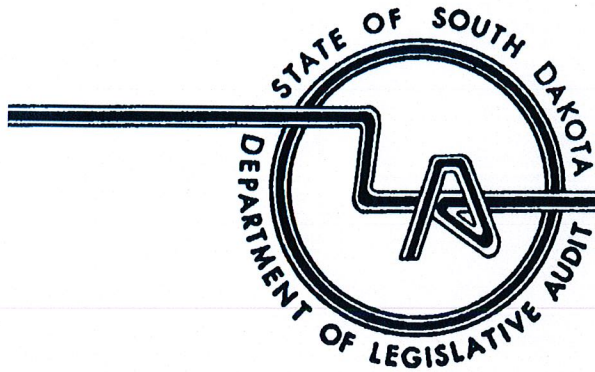
- a. In one instance, the program was over allocated monthly phone charges.
- b. The indirect costs were calculated by using the wrong indirect cost rate based on review of the grant award for one month.

Corrective Action Plan: Management is in agreement with the audit finding.

- a. The allocation of the affected phone bill has been corrected to appropriately allocate the phone charges to the appropriate programs.
- b. The billing spreadsheet has been corrected to use the appropriate indirect cost rate.

Department's Response: Please provide the documentation to show staff have been trained on the procedures for phone bill allocation and how direct and indirect costs are determined. Please provide the additional level of review that has been added to the monthly billing process.

LSS Response: Staff was trained on the procedures for phone bill allocation when the error was discovered during the audit, and again February 4th, 2020, see attached agenda. Part B is not questioning direct versus indirect costs, in June, the final month of the fiscal year, the grant renewed at a new indirect rate of 11.9%. The June bill included the old indirect rate of 10.5%. This was caught and corrected on the August bill. Training was also provided to the Director of Accounting who prepares the billing on February 3rd, 2020. An additional level of review was not added to the monthly billing process, I believe that is a carry over from the prior year response.



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

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: November 20, 2019

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

Re: Audit Report on – Lutheran Social Services of South Dakota, Inc.
As of and for the year ended June 30, 2019
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under 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 42. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure



Consolidated Financial Statements
June 30, 2019 and 2018

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Table of Contents
June 30, 2019 and 2018

Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Consolidating Statement of Financial Position	26
Consolidating Statement of Activities	28
Consolidating Statement of Cash Flows	30
Consolidated Schedule of Expenditures of Federal Awards	32
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 <i>Government Auditing Standards</i>	35
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by Uniform Guidance	37
Schedule of Findings and Questioned Costs	40



Independent Auditor's Report

To the Board of Directors and Audit Committee
Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Social Services of South Dakota, Inc. and consolidated affiliates, 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of South Dakota, Inc. and consolidated affiliates as of June 30, 2019 and 2018, and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating statements on pages 26 through 31, and the consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), on pages 32 through 34, are presented for the purposes of additional analysis and are 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 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 October 25, 2019 on our consideration of Lutheran Social Services of South Dakota, Inc.'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 solely 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 Lutheran Social Services of South Dakota, Inc.'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 Lutheran Social Services of South Dakota, Inc.'s internal control over financial reporting and compliance.

Handwritten signature of Erik Bailly LLP in cursive script.

Sioux Falls, South Dakota
October 25, 2019

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 947,148	\$ 488,635
Accounts receivable, net	1,756,075	1,729,021
Promises to give, net	318,224	598,771
Accrued income receivable	660,503	753,746
Prepaid expenses	230,803	229,819
Investments	4,190,822	4,512,201
Beneficial interests in assets held by community foundations	17,561	-
Cash restricted to housing replacement	216,179	197,397
Assets held under split-interest agreements	384,760	366,050
Other assets	20,665	23,361
Property and equipment, net	14,464,045	14,662,465
	<u>\$ 23,206,785</u>	<u>\$ 23,561,466</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 463,109	\$ 327,377
Accrued liabilities	1,164,950	1,126,578
Liabilities under split-interest agreements	78,228	71,475
Interest rate swap agreement	152,304	136,023
Notes payable	5,492,732	5,911,286
Total liabilities	<u>7,351,323</u>	<u>7,572,739</u>
Net Assets		
Without donor restrictions	10,879,586	10,738,522
With donor restrictions	4,975,876	5,250,205
Total net assets	<u>15,855,462</u>	<u>15,988,727</u>
	<u>\$ 23,206,785</u>	<u>\$ 23,561,466</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support			
Public support			
Contributions	\$ 435,595	\$ 274,953	\$ 710,548
Church support	141,461	200	141,661
United Way	361,241	727,550	1,088,791
Fees and grants from government agencies	13,858,853	-	13,858,853
Other grants	59,495	156,920	216,415
Total public support	14,856,645	1,159,623	16,016,268
Revenue			
Client and program income	5,218,384	14,140	5,232,524
Adoptive income	83,435	-	83,435
Investment return	252,414	18,710	271,124
Rent income	312,007	-	312,007
Donated supplies income	144,226	-	144,226
Unrealized gain (loss) on interest rate swap agreement	(16,281)	-	(16,281)
Change in value of split-interest agreements	-	(6,753)	(6,753)
Change in value of beneficial interests in assets held by community foundations	-	2,011	2,011
Miscellaneous income	69,140	28,229	97,369
Total revenue	6,063,325	56,337	6,119,662
Net assets released from restrictions	1,490,289	(1,490,289)	-
Total public support, revenue, and other support	22,410,259	(274,329)	22,135,930
Expenses			
Program services			
Residential services	7,211,092	-	7,211,092
Foster care	968,291	-	968,291
Behavioral health	3,101,729	-	3,101,729
Center for New Americans	2,394,220	-	2,394,220
Childcare services	1,745,383	-	1,745,383
Other services	3,266,128	-	3,266,128
Lutheran Housing Corporations	245,135	-	245,135
Supporting services			
Management and general	2,232,011	-	2,232,011
Development and foundation	1,105,206	-	1,105,206
Total expenses	22,269,195	-	22,269,195
Change in Net Assets	141,064	(274,329)	(133,265)
Net Assets, Beginning of Year	10,738,522	5,250,205	15,988,727
Net Assets, End of Year	\$ 10,879,586	\$ 4,975,876	\$ 15,855,462

See Notes to Financial Statements

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 445,156	\$ 362,624	\$ 807,780
138,184	9,000	147,184
154,943	666,343	821,286
13,115,035	-	13,115,035
48,655	488,496	537,151
<u>13,901,973</u>	<u>1,526,463</u>	<u>15,428,436</u>
5,186,777	15,281	5,202,058
150,818	-	150,818
317,227	21,688	338,915
372,400	-	372,400
86,537	-	86,537
79,575	-	79,575
-	7,954	7,954
-	-	-
<u>93,741</u>	<u>11,361</u>	<u>105,102</u>
<u>6,287,075</u>	<u>56,284</u>	<u>6,343,359</u>
<u>1,942,288</u>	<u>(1,942,288)</u>	<u>-</u>
<u>22,131,336</u>	<u>(359,541)</u>	<u>21,771,795</u>
6,854,689	-	6,854,689
1,011,783	-	1,011,783
2,893,731	-	2,893,731
2,670,169	-	2,670,169
1,671,393	-	1,671,393
3,041,405	-	3,041,405
295,971	-	295,971
2,283,068	-	2,283,068
1,145,735	-	1,145,735
<u>21,867,944</u>	<u>-</u>	<u>21,867,944</u>
263,392	(359,541)	(96,149)
<u>10,475,130</u>	<u>5,609,746</u>	<u>16,084,876</u>
<u>\$ 10,738,522</u>	<u>\$ 5,250,205</u>	<u>\$ 15,988,727</u>

	Program Services				
	Residential Services	Foster Care	Behavioral Health	Center for New Americans	Childcare Services
Salaries	\$ 4,400,439	\$ 248,708	\$ 2,050,760	\$ 1,322,050	\$ 1,057,586
Employee health and retirement benefits and housing allowance	550,610	41,084	208,334	134,815	127,923
Payroll taxes	393,786	20,649	176,921	112,672	89,480
Travel	80,543	14,195	55,500	36,163	10,891
Conference and training	57,100	3,779	18,319	16,681	9,617
Professional fees	171,743	3,132	73,042	162,748	3,891
Client related expenses	583,075	606,415	41,385	324,742	126,122
Supplies	50,740	1,650	42,820	29,854	17,199
Communications	43,264	5,829	62,080	27,838	9,050
Occupancy expenses	408,141	15,502	255,708	26,352	228,124
Outside printing	671	1,176	21,094	99	9,207
Dues and subscriptions	2,252	109	1,589	9,194	219
Building and equipment maintenance	6,191	-	-	-	1,894
Uncollectibles	6,215	-	49,239	42	-
Donated supplies	110,789	752	370	1,815	2,950
Miscellaneous expenses	78,326	(4,052)	17,068	42,875	6,747
	6,943,885	958,928	3,074,229	2,247,940	1,700,900
Depreciation	267,207	9,363	27,500	146,280	44,483
	<u>\$ 7,211,092</u>	<u>\$ 968,291</u>	<u>\$ 3,101,729</u>	<u>\$ 2,394,220</u>	<u>\$ 1,745,383</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

			Supporting Services				
Other Services	Lutheran Housing Corporations	Total Program Services	Management and General	Development and Foundation	Total Supporting Services	Total Expenses	
\$ 1,980,109	\$ 45,866	\$ 11,105,518	\$ 1,198,319	\$ 297,812	\$ 1,496,131	\$ 12,601,649	
266,080	17,112	1,345,958	181,057	66,001	247,058	1,593,016	
164,157	9,073	966,738	74,711	19,959	94,670	1,061,408	
116,601	-	313,893	55,356	8,324	63,680	377,573	
66,997	-	172,493	49,490	5,848	55,338	227,831	
232,472	(6,504)	640,524	227,130	46,828	273,958	914,482	
75,538	-	1,757,277	22,840	-	22,840	1,780,117	
63,046	15,066	220,375	78,412	10,029	88,441	308,816	
69,878	986	218,925	21,952	15,280	37,232	256,157	
69,461	107,159	1,110,447	95,338	362,155	457,493	1,567,940	
7,619	286	40,152	-	163,987	163,987	204,139	
1,610	-	14,973	18,616	1,189	19,805	34,778	
665	-	8,750	-	-	-	8,750	
4,827	580	60,903	1,750	29,474	31,224	92,127	
6,451	-	123,127	-	21,099	21,099	144,226	
31,319	(672)	171,611	96,383	49,423	145,806	317,417	
3,156,830	188,952	18,271,664	2,121,354	1,097,408	3,218,762	21,490,426	
109,298	56,183	660,314	110,657	7,798	118,455	778,769	
<u>\$ 3,266,128</u>	<u>\$ 245,135</u>	<u>\$ 18,931,978</u>	<u>\$ 2,232,011</u>	<u>\$ 1,105,206</u>	<u>\$ 3,337,217</u>	<u>\$ 22,269,195</u>	

	Program Services				
	Residential Services	Foster Care	Behavioral Health	Center for New Americans	Childcare Services
Salaries	\$ 4,210,116	\$ 223,917	\$ 1,813,138	\$ 1,369,404	\$ 1,021,676
Employee health and retirement benefits and housing allowance	442,601	35,039	168,255	122,036	107,015
Payroll taxes	378,157	17,438	152,926	115,326	85,700
Travel	91,054	15,876	79,801	39,875	12,162
Conference and training	59,552	8,430	34,896	70,326	11,645
Professional fees	151,707	2,525	55,694	199,036	3,409
Client related expenses	533,884	664,362	27,718	400,683	111,842
Supplies	71,199	1,940	25,690	28,900	14,559
Communications	31,740	6,444	54,747	28,546	8,473
Occupancy expenses	442,557	27,081	232,171	134,886	223,925
Outside printing	115	1,103	44,017	3,707	15,964
Dues and subscriptions	1,718	270	2,070	6,416	42
Building and equipment maintenance	5,134	10	115	92	-
Uncollectibles	16,060	575	146,212	-	-
Donated supplies	45,550	335	248	1,052	1,513
Miscellaneous expenses	98,634	2,301	22,842	37,329	8,324
	6,579,778	1,007,646	2,860,540	2,557,614	1,626,249
Depreciation	274,911	4,137	33,191	112,555	45,144
	<u>\$ 6,854,689</u>	<u>\$ 1,011,783</u>	<u>\$ 2,893,731</u>	<u>\$ 2,670,169</u>	<u>\$ 1,671,393</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

Other Services	Lutheran Housing Corporations	Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
			Management and General	Development and Foundation		
\$ 1,764,197	\$ 52,200	\$ 10,454,648	\$ 1,195,959	\$ 397,224	\$ 1,593,183	\$ 12,047,831
186,898	3,733	1,065,577	171,336	63,173	234,509	1,300,086
145,363	1,826	896,736	69,807	26,965	96,772	993,508
136,860	-	375,628	76,206	12,821	89,027	464,655
93,414	-	278,263	33,288	11,247	44,535	322,798
183,651	44,834	640,856	209,488	70,922	280,410	921,266
38,674	-	1,777,163	14,070	24	14,094	1,791,257
126,066	12,939	281,293	129,339	16,550	145,889	427,182
75,033	-	204,983	65,415	18,002	83,417	288,400
93,475	99,516	1,253,611	100,169	301,306	401,475	1,655,086
61,606	1,941	128,453	2,078	132,097	134,175	262,628
897	-	11,413	12,446	4,555	17,001	28,414
137	-	5,488	148	46	194	5,682
3,008	932	166,787	444	5,889	6,333	173,120
4,473	-	53,171	-	33,366	33,366	86,537
24,164	(397)	193,197	84,728	41,197	125,925	319,122
2,937,916	217,524	17,787,267	2,164,921	1,135,384	3,300,305	21,087,572
103,489	78,447	651,874	118,147	10,351	128,498	780,372
<u>\$ 3,041,405</u>	<u>\$ 295,971</u>	<u>\$ 18,439,141</u>	<u>\$ 2,283,068</u>	<u>\$ 1,145,735</u>	<u>\$ 3,428,803</u>	<u>\$ 21,867,944</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

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

	2019	2018
Operating Activities		
Change in net assets	\$ (133,265)	\$ (96,149)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	778,769	780,372
Loss (gain) on sale of property and equipment	8,551	(5,878)
Unrealized loss (gain) on interest rate swap agreement	16,281	(79,575)
Change in value of split-interest agreements	6,753	(7,954)
Change in beneficial interests in assets held by others	(2,011)	-
Investment gain	(123,597)	(109,348)
Change in discount on promises to give	(9,519)	(18,916)
Uncollectibles	92,127	173,120
Contributions restricted for capital	(90,836)	(219,990)
Change in assets and liabilities		
Accounts receivable, net	(91,611)	15,756
Promises to give, net	(25,957)	22,981
Accrued income receivable	93,243	129,297
Prepaid expenses and other assets	1,712	639
Accounts payable	(40,230)	(55,299)
Accrued liabilities	38,372	24,421
Net Cash from Operating Activities	518,782	553,477
Investing Activities		
Purchase of long-term investments	(632,700)	(4,591,181)
Sales and maturities of long-term investments	1,058,966	5,067,577
Contributions to community foundations, net of distributions	(15,550)	-
Change in restricted assets	(18,782)	(1,426)
Cash received on sale of property and equipment	110	5,878
Net purchases of property and equipment	(413,048)	(403,564)
Net Cash (used for) from Investing Activities	(21,004)	77,284
Financing Activities		
Principal payments on long-term debt	(418,554)	(3,032,986)
Proceeds from issuance of long-term debt	-	2,167,367
Net change in line of credit	-	(8,091)
Collections of contributions restricted for capital	379,289	556,959
Net Cash used for Financing Activities	(39,265)	(316,751)
Net Change in Cash and Cash Equivalents	458,513	314,010
Beginning Cash and Cash Equivalents	488,635	174,625
Ending Cash and Cash Equivalents	\$ 947,148	\$ 488,635
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 254,421	\$ 214,660
Supplemental Disclosures of Noncash Investing and Financing Activities		
Accounts payable for property and equipment	\$ 175,962	\$ -

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Lutheran Social Services of South Dakota, Inc. and consolidated affiliates (the Organization) are nonprofit corporations organized under the laws of the State of South Dakota for the purpose of providing social services with the church and other community health and welfare organizations. The Organization has the following program service areas:

Residential Services

The Organization provides treatment for youth who have significant mental health, emotional and behavioral issues. The Organization also provides treatment for youth who cannot function in their home environments and are disruptive in their schools and communities. The Organization provides 24-hour care for boys and girls ages 10 to 17 through two psychiatric residential treatment programs and one group care program.

Foster Care

The Organization's foster homes offer a safe, nurturing environment. Foster parents provide 24-hour care and supervision for children who are separated from their families. Foster families and the Organization's social workers coordinate activities to fulfill the goals and objectives of the child's and family's service and treatment plan.

Behavioral Health

The Organization provides mental health counseling and substance abuse counseling for individuals and families throughout the state of South Dakota.

Center for New Americans

The Center for New Americans helps refugees become self-sufficient through a variety of services, including community orientation, case management, employment services, English classes, citizenship classes and immigration services.

Childcare Services

The Organization offers daycare, preschool, afterschool and summer programs, and infant and toddler enrichment, emphasizing hands-on, enriching activities that keep children engaged in learning.

Other Services

The Organization provides a variety of other services, including the Center for Financial Resources, Adoption Services, Disaster Response, Fatherhood and Re-Entry Services, Kinship Services, Independent Living Services, and Mentoring Services. None of these other service programs individually exceed \$633,000 and \$606,000 of program expenses for the years ended June 30, 2019 and 2018, respectively.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Principles of Consolidation

The consolidated financial statements include the accounts of Lutheran Social Services of South Dakota Foundation, Inc. (Foundation), Lutheran Housing Corporation, Lutheran Housing Corporation/Prairie Lake Apartments, Lutheran Housing Corporation/North Sioux City, Inc., which are nonprofit South Dakota corporations under common control. Lutheran Housing Corporation/North Sioux City, Inc., and Lutheran Housing Corporation/Prairie Lake Apartments were formed for the purpose of developing elderly/family congregate housing projects. All inter-organization transactions were eliminated in the accompanying consolidated financial statements.

Cash and Cash Equivalents

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

Receivables and Credit Policies

Accounts receivables are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivables are stated at the amount billed. Account balances with invoices dated over 60 days old are considered delinquent.

Payments of accounts receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019 and 2018, the allowance was \$44,084 and \$44,543, respectively.

Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There was no allowance considered necessary as of 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 consolidated statements of financial position. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses.

Beneficial Interest in Assets Held by Community Foundations

Interest in community foundations represents funds transferred to community foundations by the Organization where the Organization has specified itself as beneficiary. The Organization 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 Organization and are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

Assets Held and Liabilities Under Split-Interest Agreements

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates 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.

Fair Value Measurements

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

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization 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 Organization develops inputs using the best information available in the circumstances.

Property and Equipment

Property and equipment additions over \$2,000 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, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Depreciation expense is allocated to the various functions on a specific basis for certain assets and on a square footage basis for certain other assets. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment 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.

Financial Instruments and Credit Risk

The Organization 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 Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give are 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 Organization'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 Organization.

Interest Rate Swap Agreement

The Organization uses an interest-rate swap to mitigate interest-rate risk on a note payable (Note 10). The related liability or asset is reported at fair value in the consolidated statements of financial position, and unrealized losses or gains are included in the consolidated statements of activities.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 and not subject to donor restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for operating reserve and quasi-endowment purposes.

Net Assets With Donor Restrictions – Net assets 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 Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. 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 Organization'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 Organization records donated professional services at the respective fair values of the services received.

Donated materials and services for the years ended June 30, 2019 and 2018, were approximately \$144,000 and \$87,000, respectively.

Management estimates that volunteers donated approximately 66,000 and 77,100 hours of service in 2019 and 2018, respectively.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon specific identification where possible and estimates made by management. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as occupancy and maintenance expenses, are allocated on a square footage basis.

Advertising

Advertising and promotion costs are expensed as incurred. Such costs were \$139,123 and \$207,771 for the years ended June 30, 2019 and 2018, respectively.

Fundraising

The Organization incurred expenses amounting to \$1,105,206 and \$1,145,735 for the years ended June 30, 2019 and 2018, respectively, related to development and fundraising. Such amounts are reflected as development and foundation expenses in the accompanying consolidated statements of activities.

Income Taxes

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

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

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.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Changes in Accounting Policies

As of July 1, 2018, the Organization 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 Organization's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk.

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

Note 2 - Liquidity and Availability

The Organization manages its liquidity to operate within a prudent range of financial soundness and stability. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, promises to give, accrued income receivable, investments, and a line of credit. See Note 9 for information on the line of credit.

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 947,148	\$ 488,635
Accounts receivable, net	1,756,075	1,729,021
Promises to give, net	318,224	598,771
Accrued income receivable	660,503	753,746
Investments	4,190,822	4,512,201
Total financial assets	<u>7,872,772</u>	<u>8,082,374</u>
Less amounts not available to be used within one year		
Cash held for security on bond	(342,496)	(342,291)
Promises to give due after one year	(143,510)	(217,454)
Investments in non-liquid securities	(13,013)	(12,439)
Total financial assets not available to be used within one year	<u>(499,019)</u>	<u>(572,184)</u>
Donor imposed restrictions		
Restricted funds - capital campaign	(128,560)	(363,231)
Restricted funds - capital projects	(30,000)	(30,000)
Total donor imposed restrictions	<u>(158,560)</u>	<u>(393,231)</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Internal designations		
Board designated for endowment purposes - liquid securities	\$ (4,174,520)	\$ (4,492,756)
Distribution of board designated endowment within one year	209,898	199,811
Board designated for east bank capital purposes	(29,843)	-
Designated for apartment project operations	(58,110)	(69,526)
Total internal designations	<u>(4,052,575)</u>	<u>(4,362,471)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,162,618</u>	<u>\$ 2,754,488</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to ongoing activities of our programs, as well as the services needed to support those programs to be general expenditures.

In addition, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

The Organization monitors its liquidity quarterly to make sure the cash needs for general expenditures of the Organization are being met.

Note 3 - Cash and Cash Equivalents

	<u>2019</u>	<u>2018</u>
Undesignated		
Cash on hand	\$ 2,945	\$ 2,945
Cash in checking	886,093	416,164
	<u>889,038</u>	<u>419,109</u>
Designated for apartment project operations	58,110	69,526
Total cash and cash equivalents	<u>\$ 947,148</u>	<u>\$ 488,635</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2019 and 2018:

	2019	2018
Within one year	\$ 174,714	\$ 381,317
In one to five years	158,970	242,433
Total promises to give	333,684	623,750
Less discount to net present value from 6.75% to 5.5%	(15,460)	(24,979)
Promises to give, net	<u>\$ 318,224</u>	<u>\$ 598,771</u>

At June 30, 2019 and 2018, there were unconditional promises to give from employees and board members totaling \$49,904 and \$132,696, respectively. Total contribution revenues from employees and board members were \$88,350 and \$78,836 for the years ended June 30, 2019 and 2018, respectively.

The Foundation has been named as a revocable beneficiary of several charitable trusts held and administered by an independent trustee. These trusts were created independently by donors and are administered by the Evangelical Lutheran Church in America (ELCA) as designated by the donors. Therefore, the Foundation has neither possession nor control over the assets of the trusts, and therefore the future gifts are considered intentions to give. The fair value provided by ELCA using present value techniques and risk-adjusted discount rates of the intentions to give were \$187,317 and \$194,925 at June 30, 2019 and 2018, respectively. The contributions are recognized as revenue at the time the beneficiary designation becomes irrevocable.

A designated fund which benefits the Organization is maintained at the Sioux Falls Area Community Foundation (SFACF). The fund was established as a result of a gift by donors on the Organization's behalf. The Organization is the sole beneficiary of this fund; however, SFACF has been given variance power by the donors. SFACF has funds totaling \$153,658 and \$155,729 at June 30, 2019 and 2018, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until any distributions are received.

Note 5 - Investments

	2019	2018
Cash and cash equivalents	\$ 370,614	\$ 431,347
Beneficial interests in assets held by community foundations	17,561	-
Mutual funds - equity securities	2,677,983	2,761,559
Mutual funds - fixed income	1,513,972	1,672,907
Life insurance policies	13,013	12,438
Total investments	<u>\$ 4,593,143</u>	<u>\$ 4,878,251</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The above investments are included on the consolidated statements of financial position as:

	<u>2019</u>	<u>2018</u>
Investments	\$ 4,190,822	\$ 4,512,201
Assets held under split-interest agreements	384,760	366,050
Beneficial interests in assets held by community foundations	<u>17,561</u>	<u>-</u>
	<u>\$ 4,593,143</u>	<u>\$ 4,878,251</u>

The investment return for the years ended June 30, 2019 and 2018, consists of the following components:

	<u>2019</u>	<u>2018</u>
Interest earned, dividends received, and mutual fund capital gains reinvested	\$ 147,527	\$ 229,567
Realized and unrealized gain on securities	<u>123,597</u>	<u>109,348</u>
	<u>\$ 271,124</u>	<u>\$ 338,915</u>

Note 6 - Fair Value of Investments

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

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 4,191,955	\$ 4,434,466
Beneficial interests in assets held by community foundations	<u>17,561</u>	<u>-</u>
Total assets	<u>\$ 4,209,516</u>	<u>\$ 4,434,466</u>
Liabilities under split-interest agreements	\$ 78,228	\$ 71,475
Interest rate swap agreement	<u>152,304</u>	<u>136,023</u>
Total liabilities	<u>\$ 230,532</u>	<u>\$ 207,498</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The related fair values of these assets and liabilities are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>June 30, 2019</u>			
Mutual funds	\$ 4,191,955	\$ -	\$ -
Beneficial interests in assets held by community foundations	-	-	17,561
Total assets	<u>\$ 4,191,955</u>	<u>\$ -</u>	<u>\$ 17,561</u>
Liabilities under split-interest agreements	\$ -	\$ -	\$ 78,228
Interest rate swap agreement	-	152,304	-
Total liabilities	<u>\$ -</u>	<u>\$ 152,304</u>	<u>\$ 78,228</u>
<u>June 30, 2018</u>			
Mutual funds	\$ 4,434,466	\$ -	\$ -
Total assets	<u>\$ 4,434,466</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities under split-interest agreements	\$ -	\$ -	\$ 71,475
Interest rate swap agreement	-	136,023	-
Total liabilities	<u>\$ -</u>	<u>\$ 136,023</u>	<u>\$ 71,475</u>

The fair value for mutual funds is determined by reference to quoted market prices. The fair value of the beneficial interest in assets held by the community foundations, and liabilities under split-interest agreements are estimated at the present value of the expected future cash flows. The fair value of the interest rate swap is based upon estimates of the related LIBOR swap rate during the term of the swap agreement.

Following is a reconciliation of activity for assets/liabilities measured at fair value based upon significant unobservable (non-market) inputs (Level 3) for 2018 and 2019:

	Beneficial Interest in Assets Held by Community Foundations	Liabilities Under Split-Interest Agreements
Balance, July 1, 2017	\$ -	\$ (79,429)
New gifts	-	-
Change in value	-	7,954
Balance, June 30, 2018	-	(71,475)
New gifts	16,790	-
Change in value	2,011	(6,753)
Distributions	(1,240)	-
Balance, June 30, 2019	<u>\$ 17,561</u>	<u>\$ (78,228)</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 7 - Restricted Assets

Pursuant to the regulatory agreements and mortgage agreements with the South Dakota Housing Development Authority and the U.S. Department of Housing and Urban Development, the Lutheran Housing Corporations are required to provide cash escrow accounts to fund repairs and maintenance expenses, insurance expenses, development costs, and residual receipts. Total restricted assets related to these agreements as of June 30, 2019 and 2018, were \$216,179 and \$197,397, respectively.

The regulatory agreements and mortgage agreements with the South Dakota Housing Development Authority and the U.S. Department of Housing and Urban Development also provide for restrictive operating procedure and loan covenants. As of June 30, 2019, management believes the Lutheran Housing Corporations are in compliance with these agreements.

Note 8 - Property and Equipment

	Useful Life	2019			2018
		Cost	Accumulated Depreciation	Net	Net
Land		\$ 2,655,942	\$ -	\$ 2,655,942	\$ 2,655,942
Buildings and improvements	15 - 40 years	17,299,984	6,217,710	11,082,274	11,582,093
Furniture and equipment	7 - 14 years	2,877,357	2,564,360	312,997	266,838
Automobiles	3 - 5 years	711,098	618,423	92,675	157,592
Work in process		320,157	-	320,157	-
		<u>\$23,864,538</u>	<u>\$ 9,400,493</u>	<u>\$14,464,045</u>	<u>\$14,662,465</u>

Property acquired with federal HUD grants is considered owned by the Organization; however, the grantor agency has interests in certain property. The amount of property acquired with these grants was \$3,531,483 at June 30, 2019 and 2018, and is reflected as net assets with donor restrictions.

Note 9 - Line of Credit

A line-of-credit agreement has been executed in the total amount of \$1,500,000 on a revolving basis. This line-of-credit expires on May 1, 2020 and is secured by all cash and equipment. Interest on unpaid principal is payable monthly at a rate of 1.75% over the Prime Rate set from time to time by the lender. The line of credit was unused as of June 30, 2019 and 2018.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 10 - Notes Payable

	<u>2019</u>	<u>2018</u>
Variable rate (3.17% at June 30, 2019) note payable to First Interstate Bank, due in monthly installments of \$6,670, including interest, due August 1, 2025, secured by real property (Canyon Hills)	\$ 247,346	\$ 318,272
Variable rate (2.817% at June 30, 2019) Minnehaha County, South Dakota Economic Development Revenue Bonds, Series 2006, due in varying monthly installments increasing annually, plus interest, due February 1, 2027, secured by real property	2,013,138	2,223,546
3.75% through March 4, 2018, then 5.375% note payable to Premier Bank, due in monthly installments of \$2,657, including interest, due March 1, 2033, secured by real property (New Alternatives)	308,176	322,743
4.125% note payable to U.S. Department of Agriculture, due in monthly installments of \$4,793, including interest, due July 27, 2045, secured by real property (Canyon Hills)	916,296	935,579
4.24% note payable to Great Western Bank, due in monthly installments of \$16,361, including interest, through December 21, 2022, when full payment is due, secured by real property (East Bank Campus)	<u>2,007,776</u>	<u>2,111,146</u>
	<u>\$ 5,492,732</u>	<u>\$ 5,911,286</u>

To minimize the effect of changes in the interest rate, in October 2006, the Organization entered into an interest rate swap agreement on \$3,000,000 of the South Dakota Economic Development Revenue Series 2006 bonds to set the interest at a fixed rate of 4.81% until maturity. Under the agreement, the Organization either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The Organization recorded unrealized (loss) gain of (\$16,281) and \$79,575 relating to the agreement for the years ended June 30, 2019 and 2018, respectively. Accordingly, the Organization recorded interest rate exchange liabilities equal to the estimated market value in the consolidated statements of financial position as of June 30, 2019 and 2018 of \$152,304 and \$136,023, respectively.

Interest expense for the years ended June 30, 2019 and 2018 was \$257,116 and \$266,283, respectively.

Minimum principal payments on the notes are as follows for the years ending June 30:

2020	\$ 442,386
2021	462,917
2022	484,179
2023	1,975,113
2024	313,390
Thereafter	<u>1,814,747</u>
	<u>\$ 5,492,732</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Minnehaha County bond covenants require the Organization to meet certain financial ratios and other requirements. Management believes that the Organization was in compliance with these requirements for the year ended June 30, 2019.

Note 11 - Net Assets

Net assets consist of the following:

	<u>2019</u>	<u>2018</u>
Without donor restrictions		
Designated by the board of the foundation for endowment purposes	\$ 4,187,533	\$ 4,505,025
Designated for building and equipment replacement	29,843	-
Designated for apartment project operations (checking account)	58,110	69,526
Undesignated	<u>6,604,100</u>	<u>6,163,971</u>
Total without donor restrictions	<u>10,879,586</u>	<u>10,738,522</u>
With donor restrictions		
Subject to expenditure for specified purpose		
Refugee resettlement and placement	91,524	107,744
Disaster response	36,555	110,862
Community services	227,356	177,455
Children and youth programs	17,665	16,356
Capital campaign - future development	260,562	555,430
Capital assets	<u>3,626,483</u>	<u>3,626,483</u>
	<u>4,260,145</u>	<u>4,594,330</u>
Subject to the passage of time		
Assets held under split-interest agreements	306,532	294,575
United Way contributions	365,638	361,300
Assets held by community foundations	17,561	-
Promises to give - community foundation assets	<u>26,000</u>	<u>-</u>
	<u>715,731</u>	<u>655,875</u>
Total with donor restrictions	<u>4,975,876</u>	<u>5,250,205</u>
Total net assets	<u><u>\$ 15,855,462</u></u>	<u><u>\$ 15,988,727</u></u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Net assets were released from donor restrictions by incurring the expenses satisfying the restricted purposes or by occurrence of events specified by donors as follows for the years ended June 30, 2019 and 2018:

	2019	2018
United Way contributions	\$ 723,212	\$ 691,725
Refugee resettlement and placement	96,808	80,746
Disaster response	134,339	402,253
Community services	140,145	128,762
Children and youth programs	8,841	33,607
Capital campaign - future development	385,704	605,195
Assets held by community foundations	1,240	-
Total net assets released from restrictions	<u>\$ 1,490,289</u>	<u>\$ 1,942,288</u>

Note 12 - Endowment Net Asset Composition by Type of Fund

The Organization's endowment consists of funds that have been gifted to the Organization by donors without restrictions and have been designated as funds functioning as endowment by the board of directors. In the event that funds received by the Organization in the future are endowed by the donor, they will be treated as net assets with donor restrictions. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization will consider the following factors in making a determination to accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Organization 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 investments,
- (6) Other resources of the Organization, and
- (7) The investment policies of the Organization.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Endowment Net Asset Composition by Type of Fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,187,533	\$ -	\$ 4,187,533
Endowment net assets, June 30, 2018	\$ 4,505,025	\$ -	\$ 4,505,025
Investment return			
Investment income	139,488	-	139,488
Net realized and unrealized appreciation	104,887	-	104,887
Appropriation of endowment assets for expenditure	(549,300)	-	(549,300)
Other changes			
Transfers to create board-designated funds	(12,567)	-	(12,567)
Endowment net assets, June 30, 2019	\$ 4,187,533	\$ -	\$ 4,187,533

Endowment Net Asset Composition by Type of Fund as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,505,025	\$ -	\$ 4,505,025
Endowment net assets, June 30, 2017	\$ 4,347,370	\$ -	\$ 4,347,370
Investment return			
Investment income	206,619	-	206,619
Net realized and unrealized appreciation	87,659	-	87,659
Appropriation of endowment assets for expenditure	(186,060)	-	(186,060)
Other changes			
Transfers to create board-designated funds	49,437	-	49,437
Endowment net assets, June 30, 2018	\$ 4,505,025	\$ -	\$ 4,505,025

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Investment assets include those assets of donor-specific funds that the Organization will designate for a specific purpose as well as board-designated funds. Under this policy, the assets are invested in a manner that seeks both preservation of capital and growth of capital on a real return basis. Asset allocation guidelines have been established for the assets based on liquidity needs and time horizon. The rebalancing of assets will occur annually, or as needed and will be reviewed by the board of directors. During the course of a complete market cycle, the total return objective shall be to achieve a return greater than capital market returns with a similarly weighted asset allocation. Actual returns in any given year may vary from this amount.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment.

Note 13 - Leases

The Organization leases certain property, building space, and vehicles under various lease agreements with varying terms. Total lease expense for all operating leases and rental agreements was \$441,382 and \$496,216 for the years ended June 30, 2019 and 2018, respectively.

Minimum future lease payments for non-cancelable operating leases are as follows:

Years Ending June 30,	
2020	\$ 249,300
2021	212,816
2022	130,772
2023	18,551
2024	4,661
Thereafter	69
	<u>\$ 616,169</u>

Note 14 - Pension Plan

The Organization has a 401(k) (defined contribution) pension plan covering all employees who work over 1,000 hours per year, excluding all fee-based employees. The Organization contributed 2.0% of the respective employees' base pay to the plan for the years ended June 30, 2019 and 2018, respectively. Pension expense was \$155,116 and \$113,204 for the years ended June 30, 2019 and 2018, respectively.

Note 15 - Support from Governmental Units

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

Note 16 - Subsequent Events

The Organization has evaluated subsequent events through October 25, 2019, the date which the consolidated financial statements were available to be issued.



Supplementary Information
June 30, 2019 and 2018

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Financial Position
Year Ended June 30, 2019

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 888,227	\$ 811	\$ 58,110	\$ -	\$ 947,148
Accounts receivable, net	1,756,004	-	71	-	1,756,075
Promises to give, net	317,699	525	-	-	318,224
Accrued income receivable	660,503	-	-	-	660,503
Prepaid expenses	229,914	-	889	-	230,803
Due from related entity	-	-	-	-	-
Investments	4,625	4,186,197	-	-	4,190,822
Beneficial interests in assets held by community foundation	17,561	-	-	-	17,561
Cash restricted to housing replacement	-	-	216,179	-	216,179
Assets held under split-interest agreements	-	384,760	-	-	384,760
Other assets	20,665	-	-	-	20,665
Property and equipment, net	14,081,006	-	383,039	-	14,464,045
	<u>\$ 17,976,204</u>	<u>\$ 4,572,293</u>	<u>\$ 658,288</u>	<u>\$ -</u>	<u>\$ 23,206,785</u>
Liabilities and Net Assets					
Accounts payable	\$ 441,700	\$ -	\$ 21,409	\$ -	\$ 463,109
Due to related entity	-	-	-	-	-
Accrued liabilities	1,151,479	-	13,471	-	1,164,950
Liabilities under split-interest agreements	-	78,228	-	-	78,228
Interest rate swap agreement	152,304	-	-	-	152,304
Notes payable	5,492,732	-	-	-	5,492,732
Total liabilities	<u>7,238,215</u>	<u>78,228</u>	<u>34,880</u>	<u>-</u>	<u>7,351,323</u>
Without donor restrictions	9,695,128	4,187,533	(3,003,075)	-	10,879,586
With donor restrictions	<u>1,042,861</u>	<u>306,532</u>	<u>3,626,483</u>	<u>-</u>	<u>4,975,876</u>
Total net assets	<u>10,737,989</u>	<u>4,494,065</u>	<u>623,408</u>	<u>-</u>	<u>15,855,462</u>
	<u>\$ 17,976,204</u>	<u>\$ 4,572,293</u>	<u>\$ 658,288</u>	<u>\$ -</u>	<u>\$ 23,206,785</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Financial Position
Year Ended June 30, 2018

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 419,109	\$ -	\$ 69,526	\$ -	\$ 488,635
Accounts receivable, net	1,729,710	-	(689)	-	1,729,021
Promises to give, net	597,871	900	-	-	598,771
Accrued income receivable	753,746	-	-	-	753,746
Prepaid expenses	229,442	-	377	-	229,819
Due from related entity	3,304	-	-	(3,304)	-
Investments	4,792	4,507,409	-	-	4,512,201
Cash restricted to housing replacement	-	-	197,397	-	197,397
Assets held under split-interest agreements	-	366,050	-	-	366,050
Other assets	23,361	-	-	-	23,361
Property and equipment, net	14,272,503	-	389,962	-	14,662,465
	<u>\$ 18,033,838</u>	<u>\$ 4,874,359</u>	<u>\$ 656,573</u>	<u>\$ (3,304)</u>	<u>\$ 23,561,466</u>
Liabilities and Net Assets					
Accounts payable	\$ 275,812	\$ -	\$ 51,565	\$ -	\$ 327,377
Due to related entity	-	3,284	20	(3,304)	-
Accrued liabilities	1,112,540	-	14,038	-	1,126,578
Liabilities under split-interest agreements	-	71,475	-	-	71,475
Interest rate swap agreement	136,023	-	-	-	136,023
Notes payable	5,911,286	-	-	-	5,911,286
Total liabilities	<u>7,435,661</u>	<u>74,759</u>	<u>65,623</u>	<u>(3,304)</u>	<u>7,572,739</u>
Without donor restrictions	9,269,030	4,505,025	(3,035,533)	-	10,738,522
With donor restrictions	<u>1,329,147</u>	<u>294,575</u>	<u>3,626,483</u>	<u>-</u>	<u>5,250,205</u>
Total net assets	<u>10,598,177</u>	<u>4,799,600</u>	<u>590,950</u>	<u>-</u>	<u>15,988,727</u>
	<u>\$ 18,033,838</u>	<u>\$ 4,874,359</u>	<u>\$ 656,573</u>	<u>\$ (3,304)</u>	<u>\$ 23,561,466</u>

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Public Support, Revenue, and Other Support				
Public support				
Contributions	\$ 421,676	\$ 274,953	\$ 13,919	\$ -
Church support	141,461	200	-	-
United Way	361,241	727,550	-	-
Fees and grants from government agencies	13,858,853	-	-	-
Other grants	59,495	156,920	-	-
Total public support	<u>14,842,726</u>	<u>1,159,623</u>	<u>13,919</u>	<u>-</u>
Revenue				
Client and program income	5,218,384	14,140	-	-
Adoptive income	83,435	-	-	-
Investment return	8,039	-	244,375	18,710
Rent income	34,414	-	-	-
Donated supplies income	144,226	-	-	-
Unrealized loss on interest rate swap agreement	(16,281)	-	-	-
Change in value of split-interest agreements	-	-	-	(6,753)
Change in value of beneficial interests in assets held by community foundations	-	2,011	-	-
Miscellaneous income (loss)	95,376	28,229	(26,236)	-
Total revenue	<u>5,567,593</u>	<u>44,380</u>	<u>218,139</u>	<u>11,957</u>
Net assets released from restrictions	<u>1,490,289</u>	<u>(1,490,289)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>21,900,608</u>	<u>(286,286)</u>	<u>232,058</u>	<u>11,957</u>
Expenses				
Program services				
Residential services	7,211,092	-	-	-
Foster care	968,291	-	-	-
Behavioral health	3,101,729	-	-	-
Center for New Americans	2,394,220	-	-	-
Childcare services	1,745,383	-	-	-
Other services	3,266,128	-	-	-
Lutheran Housing Corporations	-	-	-	-
Supporting services				
Management and general	2,231,761	-	250	-
Development and foundation	1,105,206	-	-	-
Total expenses	<u>22,023,810</u>	<u>-</u>	<u>250</u>	<u>-</u>
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	<u>(123,202)</u>	<u>(286,286)</u>	<u>231,808</u>	<u>11,957</u>
Intercompany Transfers	<u>549,300</u>	<u>-</u>	<u>(549,300)</u>	<u>-</u>
Change in Net Assets	<u>426,098</u>	<u>(286,286)</u>	<u>(317,492)</u>	<u>11,957</u>
Net Assets, Beginning of Year	<u>9,269,030</u>	<u>1,329,147</u>	<u>4,505,025</u>	<u>294,575</u>
Net Assets, End of Year	<u>\$ 9,695,128</u>	<u>\$ 1,042,861</u>	<u>\$ 4,187,533</u>	<u>\$ 306,532</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2019

Lutheran Housing Corporations			
Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
\$ -	\$ -	\$ -	\$ 710,548
-	-	-	141,661
-	-	-	1,088,791
-	-	-	13,858,853
-	-	-	216,415
-	-	-	16,016,268
-	-	-	5,232,524
-	-	-	83,435
-	-	-	271,124
277,593	-	-	312,007
-	-	-	144,226
-	-	-	(16,281)
-	-	-	(6,753)
-	-	-	2,011
-	-	-	97,369
277,593	-	-	6,119,662
-	-	-	-
277,593	-	-	22,135,930
-	-	-	7,211,092
-	-	-	968,291
-	-	-	3,101,729
-	-	-	2,394,220
-	-	-	1,745,383
-	-	-	3,266,128
245,135	-	-	245,135
-	-	-	2,232,011
-	-	-	1,105,206
245,135	-	-	22,269,195
32,458	-	-	(133,265)
-	-	-	-
32,458	-	-	(133,265)
(3,035,533)	3,626,483	-	15,988,727
\$ (3,003,075)	\$ 3,626,483	\$ -	\$ 15,855,462

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Public Support, Revenue, and Other Support				
Public support				
Contributions	\$ 370,907	\$ 362,624	\$ 74,249	\$ -
Church support	138,184	9,000	-	-
United Way	154,943	666,343	-	-
Fees and grants from government agencies	13,115,035	-	-	-
Other grants	48,655	488,496	-	-
Total public support	<u>13,827,724</u>	<u>1,526,463</u>	<u>74,249</u>	<u>-</u>
Revenue				
Client and program income	5,186,777	15,281	-	-
Adoptive income	150,818	-	-	-
Investment return	22,949	-	294,278	21,688
Rent income	97,640	-	-	-
Donated supplies income	86,537	-	-	-
Unrealized gain on interest rate swap agreement	79,575	-	-	-
Change in value of split-interest agreements	-	-	-	7,954
Miscellaneous income (loss)	118,543	11,361	(24,802)	-
Total revenue	<u>5,742,839</u>	<u>26,642</u>	<u>269,476</u>	<u>29,642</u>
Net assets released from restrictions	<u>1,942,288</u>	<u>(1,942,288)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>21,512,851</u>	<u>(389,183)</u>	<u>343,725</u>	<u>29,642</u>
Expenses				
Program services				
Residential services	6,854,689	-	-	-
Foster care	1,011,783	-	-	-
Behavioral health	2,893,731	-	-	-
Center for New Americans	2,670,169	-	-	-
Childcare services	1,671,393	-	-	-
Other services	3,041,405	-	-	-
Lutheran Housing Corporations	-	-	-	-
Supporting services				
Management and general	2,283,058	-	10	-
Development and foundation	1,145,735	-	-	-
Total expenses	<u>21,571,963</u>	<u>-</u>	<u>10</u>	<u>-</u>
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	<u>(59,112)</u>	<u>(389,183)</u>	<u>343,715</u>	<u>29,642</u>
Intercompany Transfers	<u>186,455</u>	<u>-</u>	<u>(186,060)</u>	<u>-</u>
Change in Net Assets	127,343	(389,183)	157,655	29,642
Net Assets, Beginning of Year	<u>9,141,687</u>	<u>1,718,330</u>	<u>4,347,370</u>	<u>264,933</u>
Net Assets, End of Year	<u>\$ 9,269,030</u>	<u>\$ 1,329,147</u>	<u>\$ 4,505,025</u>	<u>\$ 294,575</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2018

Lutheran Housing Corporations			
Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
\$ -	\$ -	\$ -	\$ 807,780
-	-	-	147,184
-	-	-	821,286
-	-	-	13,115,035
-	-	-	537,151
-	-	-	15,428,436
-	-	-	5,202,058
-	-	-	150,818
-	-	-	338,915
274,760	-	-	372,400
-	-	-	86,537
-	-	-	79,575
-	-	-	7,954
-	-	-	105,102
274,760	-	-	6,343,359
-	-	-	-
274,760	-	-	21,771,795
-	-	-	6,854,689
-	-	-	1,011,783
-	-	-	2,893,731
-	-	-	2,670,169
-	-	-	1,671,393
-	-	-	3,041,405
295,971	-	-	295,971
-	-	-	2,283,068
-	-	-	1,145,735
295,971	-	-	21,867,944
(21,211)	-	-	(96,149)
(395)	-	-	-
(21,606)	-	-	(96,149)
(3,013,927)	3,626,483	-	16,084,876
\$ (3,035,533)	\$ 3,626,483	\$ -	\$ 15,988,727

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2019

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	\$ 139,812	\$ (305,535)	\$ 32,458	\$ -	\$ (133,265)
Adjustments to reconcile change in net assets to net cash from operating activities					
Depreciation	722,586	-	56,183	-	778,769
Loss (gain) on sale of property and equipment	8,551	-	-	-	8,551
Unrealized loss (gain) on interest rate swap agreement	16,281	-	-	-	16,281
Change in value of split-interest agreements	-	6,753	-	-	6,753
Change in value of beneficial interest in assets held by community foundations	(2,011)	-	-	-	(2,011)
Investment gain	-	(123,597)	-	-	(123,597)
Change in discount on promises to give	(9,519)	-	-	-	(9,519)
Uncollectibles	92,127	-	-	-	92,127
Contributions restricted for capital	(90,836)	-	-	-	(90,836)
Change in assets and liabilities					
Accounts receivable, net	(90,851)	-	(760)	-	(91,611)
Promises to give, net	(26,332)	375	-	-	(25,957)
Accrued income receivable	93,243	-	-	-	93,243
Prepaid expenses and other assets	2,224	-	(512)	-	1,712
Due to/from related entities	3,304	(3,284)	(20)	-	-
Accounts payable	(10,074)	-	(30,156)	-	(40,230)
Accrued liabilities	38,939	-	(567)	-	38,372
Net Cash from Operating Activities	887,444	(425,288)	56,626	-	518,782
Investing Activities					
Purchases of long-term investments	-	(632,700)	-	-	(632,700)
Sales and maturities of long-term investments	167	1,058,799	-	-	1,058,966
Contributions to community foundations, net	(15,550)	-	-	-	(15,550)
Change in restricted assets	-	-	(18,782)	-	(18,782)
Cash received on sale of property and equipment	110	-	-	-	110
Net purchases of property and equipment	(363,788)	-	(49,260)	-	(413,048)
Net Cash (used for) from Investing Activities	(379,061)	426,099	(68,042)	-	(21,004)
Financing Activities					
Principal payments on long-term debt	(418,554)	-	-	-	(418,554)
Collections of contributions restricted for capital	379,289	-	-	-	379,289
Net Cash used for Financing Activities	(39,265)	-	-	-	(39,265)
Net Change in Cash and Cash Equivalents	469,118	811	(11,416)	-	458,513
Beginning Cash and Cash Equivalents	419,109	-	69,526	-	488,635
Ending Cash and Cash Equivalents	\$ 888,227	\$ 811	\$ 58,110	\$ -	\$ 947,148

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2018

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	\$ (261,840)	\$ 187,297	\$ (21,606)	\$ -	\$ (96,149)
Adjustments to reconcile change in net assets to net cash from operating activities					
Depreciation	701,925	-	78,447	-	780,372
Gain on sale of property and equipment	(5,878)	-	-	-	(5,878)
Unrealized gain on interest rate swap agreement	(79,575)	-	-	-	(79,575)
Change in value of split-interest agreements	-	(7,954)	-	-	(7,954)
Investment gain	-	(109,348)	-	-	(109,348)
Change in discount on promises to give	(18,916)	-	-	-	(18,916)
Uncollectibles	173,120	-	-	-	173,120
Contributions restricted for capital	(219,990)	-	-	-	(219,990)
Change in assets and liabilities					
Accounts receivable, net	15,067	-	689	-	15,756
Promises to give, net	22,081	900	-	-	22,981
Accrued income receivable	129,297	-	-	-	129,297
Prepaid expenses and other assets	404	-	235	-	639
Due to/from related entities	14,066	3,284	(17,350)	-	-
Accounts payable	(58,440)	-	3,141	-	(55,299)
Accrued liabilities	25,967	-	(1,546)	-	24,421
Net Cash from Operating Activities	437,288	74,179	42,010	-	553,477
Investing Activities					
Purchases of long-term investments	(4,623)	(4,586,558)	-	-	(4,591,181)
Sales and maturities of long-term investments	556,818	4,510,759	-	-	5,067,577
Change in restricted assets	-	-	(1,426)	-	(1,426)
Cash received on sale of property and equipment	5,878	-	-	-	5,878
Net purchases of property and equipment	(390,067)	-	(13,497)	-	(403,564)
Net Cash from (used for) Investing Activities	168,006	(75,799)	(14,923)	-	77,284
Financing Activities					
Principal payments on long-term debt	(3,032,986)	-	-	-	(3,032,986)
Proceeds from issuance of long-term debt	2,167,367	-	-	-	2,167,367
Net change in line of credit	(8,091)	-	-	-	(8,091)
Collections of contributions restricted for capital	556,959	-	-	-	556,959
Net Cash used for Financing Activities	(316,751)	-	-	-	(316,751)
Net Change in Cash and Cash Equivalents	288,543	(1,620)	27,087	-	314,010
Beginning Cash and Cash Equivalents	130,566	1,620	42,439	-	174,625
Ending Cash and Cash Equivalents	\$ 419,109	\$ -	\$ 69,526	\$ -	\$ 488,635

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Health and Human Services:</u>				
Direct Programs:				
1810/ Refugee and Entrant Assistance-State 1770/ Administered Programs 1750	93.566		\$ 419,618	\$ 75,544
1820 Refugee and Entrant Assistance- Wilson/Fish Program	93.583		441,328	-
1920 Refugee and Entrant Assistance-Targeted Assistance Grants	93.584		65,897	-
5553 Basic Center Program	93.623		83,303	-
Refugee and Entrant Assistance Discretionary Grants				
1830 Preventive Health Screening	93.576		49,850	46,874
1980 Targeted Assistance Grant Program	93.576		40,066	-
1610 Refugees in Skilled Employment	93.576		91,542	-
Total Refugee and Entrant Assistance Discretionary Grants			181,458	46,874
Passed through South Dakota Department of Health				
5902 Affordable Care Act Personal Responsibility Education Programs	93.092	19SC090130	170,246	-
5904 Title V State Sexual Risk Avoidance Education Program	93.235	19090400001	44,964	-
Passed through South Dakota Department of Social Services				
5900 Chafee Foster Care Independence Program	93.674	19SC086601 20SC086601	317,308	-
Passed through Lutheran Immigration and Refugee Service				
1890 Refugee and Entrant Assistance-Voluntary Agency Programs	93.567	90RV0071-03-SD-00	46,534	-
Total Department of Health and Human Services			1,770,656	122,418
<u>Department of State:</u>				
Passed through United States Conference of Catholic Bishops, Migration and Refugee Services				
1620/ 1625 U.S. Refugee Admissions Program	19.510		24,410	-
Passed through Lutheran Immigration and Refugee Service				
1700/ 1800 U.S. Refugee Admissions Program	19.510	323-18-SD-0 323-19-SD-0	301,968	-
Total Department of State			326,378	-
<u>Department of Agriculture:</u>				
Passed through South Dakota Division of Elementary and Secondary Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	65,012	-
National School Lunch Program	10.555	6140100	120,574	-
Total Child Nutrition Cluster			185,586	-
Child and Adult Care Food Program	10.558	6140100	25,159	-
Total Department of Agriculture			210,745	-

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Homeland Security:</u>				
Direct Program:				
1845 Citizenship Education and Training	97.010		\$ 109,868	\$ -
<u>Department of Justice:</u>				
Direct Program:				
1213 Second Chance Act Reentry Initiative	16.812		114,248	-
0100 Emergency Planning for Juvenile Justice Facilities	16.823		147,555	-
Passed through South Dakota Department of Corrections				
3377/ Juvenile Justice and Delinquency		2016DMC01		
5554/ Prevention	16.540	2017DMC01	110,795	-
5664		2017DMC02		
Passed through South Dakota Department of Social Services				
1244/				
1344 Crime Victim Assistance	16.575	19SC084650	88,683	-
Sexual Assault Services Program	16.017	19SC084560	30,305	-
Total Department of Justice			491,586	-
<u>Department of Education:</u>				
Passed through South Dakota Department of Education				
0052 Twenty-First Century Community Learning Centers	84.287	S287C160042	150,000	-
Passed through South Dakota Department of Labor				
1850 Adult Education - ABE-GED	84.002	17-AB-005	204,044	-
Total Department of Education			354,044	-
<u>Department of Housing and Urban Development:</u>				
Passed through Rapid City Community Development				
5555 Community Development Block Grants	14.253	10/13/2016	5,000	-
Total Federal Financial Assistance			\$ 3,268,277	\$ 122,418

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Lutheran Social Services of South Dakota, Inc. (the Organization) 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 Organization, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. 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.

Note 3 - Indirect Cost Rate

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

Note 4 - Child Nutrition Cluster

Federal reimbursements for the Child Nutrition Cluster are not based upon specific expenditures. Therefore, the amounts reported in the consolidated schedule of expenditures of federal awards represent cash received rather than federal expenditures.

Note 5 - Crime Victim Assistance and Sexual Assault Services Program

Federal reimbursements for the Crime Victim Assistance Program, CFDA #16.575, and the Sexual Assault Services Program, CFDA #16.017, are not based upon specific expenditures. Therefore, the amounts reported in the consolidated schedule of expenditures of federal awards represent cash received rather than federal expenditures.



**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***

To the Board of Directors
Lutheran Social Services of South Dakota, Inc.
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 Lutheran Social Services of South Dakota, Inc., which comprise the consolidated statement of financial position as of June 30, 2019, and the related 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 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lutheran Social Services of South Dakota, Inc.'s internal control over financial reporting 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 Lutheran Social Services of South Dakota, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc.'s internal control.

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

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as *Finding 2019-001* to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as *Finding 2019-002* to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lutheran Social Services of South Dakota, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

Lutheran Social Services of South Dakota, Inc.'s Response to Findings

Lutheran Social Services of South Dakota, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Lutheran Social Services of South Dakota, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc.'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 "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
October 25, 2019



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by Uniform Guidance

To the Board of Directors and Audit Committee
Lutheran Social Services of South Dakota, Inc.
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of South Dakota, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lutheran Social Services of South Dakota, Inc.'s major federal programs for the year ended June 30, 2019. Lutheran Social Services of South Dakota, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Lutheran Social Services of South Dakota, Inc.'s consolidated financial statements include the operations of Lutheran Housing Corporation/North Sioux City Inc. and Lutheran Housing Corporation/Prairie Lake Apartments, which are nonprofit South Dakota corporations under common control (collectively, Housing Corporations). The Housing Corporations received \$3,535,368 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of these Housing Corporations for which required separate U.S. Department of Housing and Urban Development audits are performed in accordance with the Uniform Guidance as of December 31.

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 compliance for each of Lutheran Social Services of South Dakota, Inc.'s major federal programs 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 types of 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 Lutheran Social Services of South Dakota, Inc.'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 each major federal program. However, our audit does not provide a legal determination of Lutheran Social Services of South Dakota, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Lutheran Social Services of South Dakota, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Lutheran Social Services of South Dakota, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lutheran Social Services of South Dakota, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Lutheran Social Services of South Dakota, Inc.'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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as *Findings 2019-003, 2019-004, 2019-005, and 2019-006* that we consider to be significant deficiencies.

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

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

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

Sioux Falls, South Dakota
October 25, 2019

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
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>
U.S. Refugee Admissions Program	19.510
Refugee and Entrant Assistance-State Administered Programs	93.566
Refugee and Entrant Assistance-Wilson/Fish Program	93.583
Chafee Foster Care Independence Program	93.674
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2019-001 Preparation of Financial Statements and Material Audit Adjustment Material Weakness

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

Condition: As auditors, we proposed a material audit adjustment relating to the classification of net assets between net assets with restrictions and net assets without restriction that would not have been identified as a result of the Organization's existing internal controls. The Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes. As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements.

Cause: The Organization was not aware of the misclassification and management has elected to have the consolidated financial statements and footnotes prepared by Eide Bailly LLP as part of the audit.

Effect: The preparation of the consolidated financial statements as a part of the audit engagement may result in consolidated financial statements and accompanying notes to the consolidated financial statements not being available for management purposes as timely as it would be if prepared by Organization personnel.

Recommendation: Management and the Board should continually be aware of the financial reporting of the Organization and changes in reporting requirements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor's involvement in its consolidated financial statements condition because of cost or other considerations.

Views of Responsible Officials: Management is in agreement.

Finding 2019-002 Segregation of Duties Significant Deficiency

Criteria: In order to achieve an appropriate level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Condition: The Organization did not have an internal control system to allow for proper segregation of duties across all areas of the accounting function.

Cause: Month end account reconciliations are prepared for investments, property and equipment, debt, and assets held under split-interest agreements. However, the reconciliations are not formally reviewed by someone independent of the preparer. In addition, there has been turnover in the accounts receivable department that have not allowed for proper segregation of duties at times during the year.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect and correct misstatements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that the Organization's current processes did not allow optimal internal control, it is important that the Organization is aware of this condition. Under this condition, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Organization.

Views of Responsible Officials: Management is in agreement.

Section III – Federal Award Findings and Questioned Costs

**Finding 2019-003 Passed Through South Dakota Department of Social Services
CFDA 93.674, 19SC086601, 6/1/2018 – 5/31/2019
CFDA 93.674, 20SC086601, 6/1/2019 – 5/31/2020
Chafee Foster Care Independence Program**

**Allowable Costs / Costs Principles and Activities Allowed or Unallowed
Significant Deficiency in Internal Control over Compliance**

Criteria: The Organization 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 200.303(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: In our sample of expenditures selected for testing, we noted the following items:

- a) In one instance, the program was over allocated monthly phone charges.
- b) The indirect costs were calculated by using the wrong indirect cost rate based on review of the grant award for one month.

Cause: Lack of compliance with designed internal controls over disbursements allows for payment of expenditures that were not at the correct amount.

Effect: Costs were not properly reported by an insignificant amount.

Questioned Costs: None reported as net expenditures were underallocated to the federal award.

Context: A nonstatistical sample of 8 non-payroll disbursements were tested which accounted for \$4,393 out of \$51,661 of non-payroll program expenditures and a nonstatistical sample of 6 indirect allocations were tested which accounted for \$18,351 out of \$35,268 of indirect allocation program expenditures.

Repeat Finding from Prior Years: Similar finding was reported during the prior year.

Recommendation: We recommend that management review the procedures surrounding allocating monthly phone charges and the indirect cost computation to ensure proper calculation of these expenditures.

View of Responsible Officials: Management is in agreement.

**Finding 2019-004 Passed Through Lutheran Immigration and Refugee Service
CFDA 19.510, SPRMCO18CA0003, 10/1/2017 – 12/31/2018
CFDA 19.510, SPRMCO19CA0030, 1/1/2019 – 9/30/2019
U.S. Refugee Admissions Program**

**Passed Through United States Conference of Catholic Bishops, Migration, and Refugee Services
CFDA 19.510, 1/28/2019 – 9/30/2019
U.S. Refugee Admissions Program**

**Allowable Costs / Costs Principles and Activities Allowed or Unallowed
Significant Deficiency in Internal Control over Compliance**

Criteria: The Organization 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 200.303(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: In our sample of expenditures selected for testing, we noted the following items:

- a) In one instance, the federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked.
- b) The indirect costs calculated included an error in one month.

Cause: Lack of compliance with designed internal controls over disbursements allows for payment of expenditures that were not at the correct amount.

Effect: Costs were not properly reported by an insignificant amount.

Questioned Costs: Questioned costs were \$97.

Context: A nonstatistical sample of 16 payroll disbursements were tested which accounted for \$5,935 out of \$86,986 of payroll program expenditures and a nonstatistical sample of 3 indirect allocations were tested which accounted for \$2,820 out of \$15,106 of indirect allocation program expenditures.

Repeat Finding from Prior Years: No

Recommendation: We recommend that management review the process over tracking hours worked with related program employees and review the procedures surrounding the indirect cost computation to ensure proper calculation of these expenditures.

View of Responsible Officials: Management is in agreement.

**Finding 2019-005 Administration For Children and Families
CFDA 93.583, 90RW0049, 9/30/2017 – 9/29/2018 and 9/30/2018 – 9/29/2019
Refugee and Entrant Assistance-Wilson/Fish Program**

**Eligibility and Case Management
Significant Deficiency in Internal Control over Compliance**

Criteria: 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. The Wilson Fish Program Guidelines require case file documentation, including clear documentation of Refugee Cash Assistance payments, including monthly redetermination calculations and acknowledgement of receipt. Each file must have a summary sheet of all cash assistance expenditures allocable to the program.

Condition: The final cash assistance calculation did not agree to the amount paid to the participant by an insignificant amount for one file selected for testing. In addition, one case file was not reviewed within thirty days as required by the Organization's peer review procedures.

Cause: Lack of conformity with designed controls.

Effect: Ineffective controls over this area of compliance could result in a reasonable possibility that the Organization would provide services to ineligible participants.

Questioned Costs: None reported.

Context: A nonstatistical sample of 15 participant case files out of 71 participant case files were selected for testing.

Repeat Finding from Prior Years: Similar finding reported during the prior year.

Recommendation: We recommend that procedures and program requirements regarding participant eligibility, monthly redetermination and case file management be reviewed with applicable program employees to ensure they are aware of grant requirements.

Views of Responsible Officials: Management is in agreement.

Finding 2019-006 Administration For Children and Families
CFDA 93.583, 90RW0049, 9/30/2017 – 9/29/2018 and 9/30/2018 – 9/29/2019
Refugee and Entrant Assistance Wilson/Fish Program

Reporting
Significant Deficiency in Internal Control over Compliance

Criteria: 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. 2 CFR 200.302 requires the auditee to provide accurate, current and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements of 2 CFR 200.327 financial reporting and 2 CFR 200.328 monitoring and reporting program performance.

Condition: In one instance, an amount reported per the trimester progress report did not agree to the supporting documentation as one case was missed in error in Schedule B, Part I impacting the case number and persons reported.

Cause: The review of the trimester report did not detect the error.

Effect: Ineffective controls over this area of compliance could result in a reasonable possibility that the Organization would not detect an error in the normal course of performing duties and correct them in a timely manner.

Questioned Costs: None reported

Context: The quarterly reports were reviewed for two quarters in the Organization's fiscal year. One trimester report was reviewed in the Organization's fiscal year.

Repeat Finding from Prior Years: Similar finding reported during the prior year.

Recommendation: We recommend the procedures related to reporting be reviewed with applicable program employees to ensure the reporting is properly supported and the documentation is retained.

Views of Responsible Officials: Management is in agreement.

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

Prepared by Management of
Lutheran Social Services of South Dakota

Financial Statement Findings

Finding 2018-A Preparation of Financial Statements and Restatement

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: As a result of audit procedures certain adjustments and reclassifications, as well as management proposed adjustments, were identified that may not have been identified as a result of the Organization's existing internal controls. In addition, an error related to the presentation of United Way funding between unrestricted and temporarily restricted revenues was noted. The 2017 consolidated financial statements were restated to correct the prior year's error.

Status: Ongoing. Procedures have been changed to review any unusual or nonroutine transactions that occurred during the year, to ensure appropriate adjustments were made prior to the auditors review. The Organization plan's to have Eide Bailly, LLP prepare the current year financial statements, due to time and cost constraints.

Finding 2018-B Segregation of Duties

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: Turnover and leaves of absence in accounting have not allowed for sufficient segregation of duties with regard to executing and recording transactions, and maintaining accountability for assets.

Status: Ongoing. Procedures have been strengthened to address segregation of duties when there is turnover or leave within the accounting department. Turnover was limited in the fiscal year under review.

Single Audit Findings

Finding 2018-001 Allowable Costs and Allowable Activities

Administration For Children and Families

CFDA 93.583

Refugee and Entrant Assistance_Wilson/Fish Program

Passed Through South Dakota Department of Social Services

CFDA 93.674

Chafee Foster Care Independence Program

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance-State Administered Programs

Initial Fiscal Year Finding Occurred: 2015

Finding Summary:

- a. In three instances the federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked (CFDA 93.583 and 93.566)
- b. Amounts paid directly to refugees were included in the direct cost base for calculation of the monthly indirect cost (CFDA 93.583)
- c. Indirect costs calculation included an error in four months (CFDA 93.674)
- d. In one month, the wrong allocation amount was used for allocated rent (CFDA 93.674)

Status: Ongoing. Staff have been trained and reminded on procedures for time trackers, indirect costs are now charged according to actual direct costs, and steps have been added to correctly include all direct costs. Staff training will be ongoing.

Finding 2018-002 Eligibility and Case Management

Administration For Children and Families

CFDA 93.583

Refugee and Entrant Assistance_Wilson/Fish Program

Initial Fiscal Year Finding Occurred: 2015

Finding Summary: We noted one file in which the final cash assistance calculation did not agree to the amount paid to the participant. In addition, one case file was not reviewed within thirty days as required by the Organization's peer review procedures.

Status: Ongoing. Program requirements and internal procedures were reviewed with all program employees, and will continue to be reviewed with employees and new employees.

Finding 2018-003 Reporting

Administration For Children and Families

CFDA 93.583

Refugee and Entrant Assistance Wilson/Fish Program

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: In two instances, the quarterly expenses reported within the quarterly financial reports did not agree to the supporting documentation. In addition, in one instance the amount reported per the trimester progress report did not agree to the supporting documentation.

Status: Ongoing. The review process was updated to ensure accurate numbers are being included on the reports.

Finding 2018-004 Cash Management and Reporting

Passed Through Lutheran Immigration and Refugee Service

CFDA 19.510

U.S. Refugee Admissions Program

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: In one instance the monthly report was not properly approved.

Status: The billing review process was updated to insure approval was complete prior to submission.

Finding 2018-005 Matching, Level of Effort and Earmarking

Passed Through South Dakota Department of Social Services

CFDA 93.674

Chafee Foster Care Independence Program

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: Appropriate documentation to support amounts used as match were not readily available or appropriate approval was not apparent. Four items were also incorrectly used as match.

Status: Match procedures have been modified to allow for appropriate documentation and approval. Staff have been trained on appropriate practices for recording match and what items are appropriate to use as match. Staff training will be ongoing.

Finding 2018-006 Suspension and Debarment

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance-State Administered Programs

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: The Organization is verifying Subrecipients as not being suspended or debarred, however has no identified control over the process.

Status: A checklist has been created to make sure all requirements are met and reviewed prior to the start of a new Subrecipient agreement.

Finding 2018-007 Subrecipient Monitoring

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance-State Administered Programs

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: The subaward agreements did not include all required elements as noted in the regulations and the Organization did not perform an evaluation of the risk of noncompliance of the Subrecipients.

Status: A checklist has been created to make sure all requirements are met and reviewed prior to the start of a new Subrecipient agreement, and ongoing monitoring of Subrecipients is taking place.

Finding 2018-008 Reporting

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance-State Administered Programs

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: In one instance, the quarterly expenses reported within the quarterly financial reports did not agree to the supporting documentation. In addition, in one instance an amount reported per the trimester progress report did not agree to supporting documentation. The expenditures reported in the quarterly reports were allowable, however the method of completing the reports was revised during the year between line items relating to federal share of unliquidated obligations and unobligated balance of federal funds based on verbal guidance from the agency.

Status: The review process was updated to ensure accurate numbers were recorded on the reports. The Organization has documented the understanding of the federal expectations regarding obligations, and received no further guidance of changes necessary from the federal agency.

Findings – Financial Statement

Finding 2019-001 Preparation of Financial Statements and Material Audit Adjustment

Finding Summary: As a result of audit procedures, a material audit adjustment relating to the classification of net assets between net assets with restrictions and net assets without restriction that would not have been identified as a result of the Organization's existing internal controls. In addition, the Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Management will review the year-end journal entry process to eliminate the need for similar audit entries in future periods. The Organization will continue to request that the auditors draft the consolidated financial statements and accompanying notes, due to cost and time constraints.

Anticipated Completion Date: November 1, 2019

Finding 2019-002 Segregation of Duties

Finding Summary: The Organization did not have an internal control system to allow for proper segregation of duties across all areas of the accounting function.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Management will implement a quarterly checklist to review reconciliations of balance sheet accounts and key income statement accounts for accuracy.

Anticipated Completion Date: December 31, 2019

Findings – Federal Awards

Finding 2019-003 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Passed Through South Dakota Department of Social Services

CFDA 93.674

Chafee Foster Care Independence Program

Finding Summary:

- a. In one instance, the program was over allocated monthly phone charges.
- b. The indirect costs were calculated by using the wrong indirect cost rate based on review of the grant award for one month.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan:

- a. The allocation of the affected phone bill has been corrected to appropriately allocate the phone charges to the appropriate programs.
- b. The billing spreadsheet has been corrected to use the appropriate indirect cost rate.

Anticipated Completion Date: October 1, 2019

Finding 2019-004 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Passed Through Lutheran Immigration and Refugee Service

CFDA 19.510

U.S. Refugee Admissions Program

Passed Through United States Conference of Catholic Bishops, Migration, and Refugee Services

CFDA 19.510

U.S. Refugee Admissions Program

Finding Summary:

- a. In one instance, the federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked.
- b. The indirect costs calculated included an error in one month.

Responsible Individuals: Nathan Beyer, Amy Cravaack, & Tim Jurgens

Corrective Action Plan:

- a. The federal time tracker is being updated to include fee based hours paid to individuals who are both employees, and get paid for fee based interpretation.
- b. The billing spreadsheet has been corrected to use the appropriate indirect costs.

Anticipated Completion Date: November 1, 2019

Finding 2019-005 Eligibility and Case Management

Administration For Children and Families

CFDA 93.583

Refugee and Entrant Assistance Wilson/Fish Program

Finding Summary: The final cash assistance calculation did not agree to the amount paid to the participant by an insignificant amount for one file selected for testing. In addition, one case file was not reviewed within thirty days as required by the Organization's peer review procedures.

Responsible Individuals: Tim Jurgens

Corrective Action Plan: The Organization will work with program employees to make sure they understand the importance of all documentation in the case files to comply with program requirements and internal procedures.

Anticipated Completion Date: November 15, 2019

Finding 2019-006 Reporting

Administration For Children and Families

CFDA 93.583

Refugee and Entrant Assistance Wilson/Fish Program

Finding Summary: In one instance, an amount reported per the trimester progress report did not agree to the supporting documentation as one case was missed in error in Schedule B, Part I impacting the case number and persons reported.

Responsible Individuals: Tim Jurgens

Corrective Action Plan: The review process has been updated to make sure all appropriate cases are being included on the reports.

Anticipated Completion Date: November 1, 2019