



South Dakota
Department of
Social Services

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June 22, 2021

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 finding 2020-001 from the Single Audit for Lutheran Social Services for the fiscal year ended June 30, 2020. The Department considers LSS's corrective action as proposed in the management response portion of the Single Audit Report and following correspondence dated May 27, 2021 as having taken the necessary steps to correct the deficiencies if fully implemented.

There is no further action required from LSS at this time. However, as communicated in our April 22, 2021 letter our expectation is you will be asked to appear before the South Dakota Board of Internal Control for this repeat finding.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Laurie Mikkonen', is written over a light blue horizontal line.

Laurie Mikkonen
Chief Financial Officer

cc: DSS CPS



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RUSSELL A. OLSON
AUDITOR GENERAL

Date: January 7, 2021

To: SD Department of Social Services
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, 2020
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,

Russell A. Olson
Auditor General

RAO:sld

Enclosure



Consolidated Financial Statements
June 30, 2020 and 2019

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

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

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June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Change in Accounting Principle

As discussed in Note 17 to the consolidated financial statements, the Organization has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Accordingly, the consolidated statement of cash flows for the year ended June 30, 2019 has been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

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 30 through 37, 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 38 through 40, 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 dated October 30, 2020 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.



Sioux Falls, South Dakota
October 30, 2020

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 3,746,933	\$ 947,148
Accounts receivable, net	1,554,066	1,756,075
Promises to give, net	337,932	318,224
Accrued income receivable	758,017	660,503
Prepaid expenses	62,283	230,803
Investments	3,901,973	4,190,822
Beneficial interests in assets held by community foundations	31,429	17,561
Cash restricted to housing replacement	256,964	216,179
Assets held under split-interest agreements	386,191	384,760
Other assets	-	20,665
Property and equipment, net	14,543,830	14,464,045
	\$ 25,579,618	\$ 23,206,785
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 365,230	\$ 463,109
Accrued liabilities	1,392,980	1,164,950
Liabilities under split-interest agreements	77,265	78,228
Paycheck Protection Program loan	2,852,000	-
Interest rate swap agreement	164,929	152,304
Notes payable	5,050,676	5,492,732
Total liabilities	9,903,080	7,351,323
Net Assets		
Without donor restrictions	10,226,128	10,879,586
With donor restrictions	5,450,410	4,975,876
Total net assets	15,676,538	15,855,462
	\$ 25,579,618	\$ 23,206,785

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
Public support						
Contributions	\$ 268,180	\$ 485,916	\$ 754,096	\$ 435,595	\$ 274,953	\$ 710,548
Church support	128,195	214,295	342,490	141,461	200	141,661
United Way	387,571	840,135	1,227,706	361,241	727,550	1,088,791
Fees and grants from government agencies	14,064,491	22,500	14,086,991	13,858,853	-	13,858,853
Other grants	58,357	457,714	516,071	59,495	156,920	216,415
Total public support	14,906,794	2,020,560	16,927,354	14,856,645	1,159,623	16,016,268
Revenue						
Client and program income	5,162,305	-	5,162,305	5,218,384	14,140	5,232,524
Adoptive income	63,268	-	63,268	83,435	-	83,435
Investment return	48,038	1,431	49,469	252,414	18,710	271,124
Rent income	315,734	-	315,734	312,007	-	312,007
Donated supplies income	87,533	-	87,533	144,226	-	144,226
Unrealized loss on interest rate swap agreement	(12,625)	-	(12,625)	(16,281)	-	(16,281)
Change in value of split-interest agreements	-	963	963	-	(6,753)	(6,753)
Change in value of beneficial interests in assets held by community foundations	-	1,394	1,394	-	2,011	2,011
Miscellaneous income	43,492	39,859	83,351	69,140	28,229	97,369
Total revenue	5,707,745	43,647	5,751,392	6,063,325	56,337	6,119,662
Net assets released from restrictions	1,589,673	(1,589,673)	-	1,490,289	(1,490,289)	-
Total public support, revenue, and other support	22,204,212	474,534	22,678,746	22,410,259	(274,329)	22,135,930

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses						
Program services						
Residential services	\$ 7,690,847	\$ -	\$ 7,690,847	\$ 7,211,092	\$ -	\$ 7,211,092
Foster care	861,318	-	861,318	968,291	-	968,291
Behavioral health	3,308,884	-	3,308,884	3,101,729	-	3,101,729
Center for New Americans	1,952,523	-	1,952,523	2,394,220	-	2,394,220
Childcare services	1,875,411	-	1,875,411	1,745,383	-	1,745,383
Other services	3,751,899	-	3,751,899	3,266,128	-	3,266,128
Lutheran Housing Corporations	307,897	-	307,897	245,135	-	245,135
Supporting services						
Management and general	2,361,396	-	2,361,396	2,232,011	-	2,232,011
Development and foundation	747,495	-	747,495	1,105,206	-	1,105,206
Total expenses	22,857,670	-	22,857,670	22,269,195	-	22,269,195
Change in Net Assets	(653,458)	474,534	(178,924)	141,064	(274,329)	(133,265)
Net Assets, Beginning of Year	10,879,586	4,975,876	15,855,462	10,738,522	5,250,205	15,988,727
Net Assets, End of Year	\$ 10,226,128	\$ 5,450,410	\$ 15,676,538	\$ 10,879,586	\$ 4,975,876	\$ 15,855,462

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services										Total Expenses	
	Center for New Americans					Lutheran Housing Corporations						Total Program Services
	Residential Services	Foster Care	Behavioral Health	Childcare Services	Other Services	Management and General	Development and Foundation	Management and General	Development and Foundation			
Salaries	\$ 4,861,042	\$ 217,702	\$ 2,033,400	\$ 1,143,762	\$ 1,125,711	\$ 2,258,055	\$ 81,812	\$ 11,721,484	\$ 1,243,630	\$ 251,319	\$ 13,216,433	
Employee health and retirement benefits	568,042	38,478	230,598	113,885	120,026	273,797	7,353	1,352,179	206,022	58,417	1,616,618	
Payroll taxes	430,995	18,159	172,185	98,302	95,006	185,430	7,233	1,007,310	71,954	16,912	1,096,176	
Travel	82,400	7,994	59,808	20,025	8,594	102,439	-	281,260	66,454	2,401	350,115	
Conference and training	56,060	2,859	27,427	25,286	8,496	49,581	-	169,709	56,925	6,274	232,908	
Professional fees	145,844	2,531	63,895	122,186	3,398	378,457	86,852	803,163	219,204	24,362	1,046,729	
Client related expenses	559,303	523,436	37,802	214,242	110,078	99,358	-	1,544,219	31,497	-	1,575,716	
Supplies	60,807	1,135	45,204	27,059	25,720	74,412	7,772	242,109	83,286	3,743	329,138	
Communications	49,900	6,008	69,712	25,791	10,717	70,052	-	232,180	24,706	12,196	269,082	
Occupancy expenses	464,700	27,181	260,851	(28,014)	230,384	106,023	80,186	1,141,311	92,809	197,635	1,431,755	
Outside printing	-	1,173	30,769	527	12,596	16,728	360	62,153	65,103	131,830	259,086	
Dues and subscriptions	707	116	3,298	9,014	150	806	-	14,091	3,348	1,147	18,586	
Building and equipment maintenance	4,066	22	215	-	1,426	228	-	5,957	55	4	6,016	
Uncollectibles	199	-	227,853	107	67,713	-	165	296,037	51,903	10,539	358,479	
Donated supplies	70,372	2,140	-	-	659	8,058	-	81,229	-	6,304	87,533	
Miscellaneous expenses	62,791	8,245	11,080	21,097	10,002	20,198	(606)	132,807	60,442	19,909	213,158	
	7,417,228	857,179	3,274,097	1,793,269	1,830,676	3,643,622	271,127	19,087,198	2,277,338	742,992	22,107,528	
Depreciation	273,619	4,139	34,787	159,254	44,735	108,277	36,770	661,581	84,058	4,503	750,142	
	\$ 7,690,847	\$ 861,318	\$ 3,308,884	\$ 1,952,523	\$ 1,875,411	\$ 3,751,899	\$ 307,897	\$ 19,748,779	\$ 2,361,396	\$ 747,495	\$ 22,857,670	

See Notes to Consolidated Financial Statements

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

	Program Services							Supporting Services			Total Expenses
	Residential Services	Foster Care	Behavioral Health	Center for New Americans	Childcare Services	Other Services	Lutheran Housing Corporations	Total Program Services	Management and General	Development and Foundation	
Salaries	\$ 4,400,439	\$ 248,708	\$ 2,050,760	\$ 1,322,050	\$ 1,057,586	\$ 1,980,109	\$ 45,866	\$ 11,105,518	\$ 1,198,319	\$ 297,812	\$ 12,601,649
Employee health and retirement benefits	550,610	41,084	208,334	134,815	127,923	266,080	17,112	1,345,958	181,057	66,001	1,593,016
Payroll taxes	393,786	20,649	176,921	112,672	89,480	164,157	9,073	966,738	74,711	19,959	1,061,408
Travel	80,543	14,195	55,500	36,163	10,891	116,601	-	313,893	55,356	8,324	377,573
Conference and training	57,100	3,779	18,319	16,681	9,617	66,997	-	172,493	49,490	5,848	227,831
Professional fees	171,743	3,132	73,042	162,748	3,891	232,472	(6,504)	640,524	227,130	46,828	914,482
Client related expenses	583,075	606,415	41,385	324,742	126,122	75,538	-	1,757,277	22,840	-	1,780,117
Supplies	50,740	1,650	42,820	29,854	17,199	63,046	15,066	220,375	78,412	10,029	308,816
Communications	43,264	5,829	62,080	27,838	9,050	69,878	986	218,925	21,952	15,280	256,157
Occupancy expenses	408,141	15,502	255,708	26,352	228,124	69,461	107,159	1,110,447	95,338	362,155	1,567,940
Outside printing	671	1,176	21,094	99	9,207	7,619	286	40,152	-	163,987	204,139
Dues and subscriptions	2,252	109	1,589	9,194	219	1,610	-	14,973	18,616	1,189	34,778
Building and equipment maintenance	6,191	-	-	-	1,894	665	-	8,750	-	-	8,750
Uncollectibles	6,215	-	49,239	42	-	4,827	580	60,903	1,750	29,474	92,127
Donated supplies	110,789	752	370	1,815	2,950	6,451	-	123,127	-	21,099	144,226
Miscellaneous expenses	78,326	(4,052)	17,068	42,875	6,747	31,319	(672)	171,611	96,383	49,423	317,417
Depreciation	6,943,885	958,928	3,074,229	2,247,940	1,700,900	3,156,830	188,952	18,271,664	2,121,354	1,097,408	21,490,426
	267,207	9,363	27,500	146,280	44,483	109,298	56,183	660,314	110,657	7,798	778,769
	\$ 7,211,092	\$ 968,291	\$ 3,101,729	\$ 2,394,220	\$ 1,745,383	\$ 3,266,128	\$ 245,135	\$ 18,931,978	\$ 2,232,011	\$ 1,105,206	\$ 22,269,195

See Notes to Consolidated Financial Statements

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	Adjusted 2019
Operating Activities		
Change in net assets	\$ (178,924)	\$ (133,265)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	750,142	778,769
Loss on sale of property and equipment	9,805	8,551
Unrealized loss on interest rate swap agreement	12,625	16,281
Change in value of split-interest agreements	(963)	6,753
Change in beneficial interests in assets held by others	(1,394)	(2,011)
Investment loss (gain)	70,299	(123,597)
Change in discount on promises to give Uncollectibles	(10,064)	(9,519)
Contributions restricted for capital	358,479	92,127
Advance on Paycheck Protection Program loan	(187,063)	(90,836)
Change in assets and liabilities	2,852,000	-
Accounts receivable, net	(156,470)	(91,611)
Promises to give, net	21,199	(25,957)
Accrued income receivable	(97,514)	93,243
Prepaid expenses and other assets	189,185	1,712
Accounts payable	4,698	(40,230)
Accrued liabilities	228,030	38,372
Net Cash from Operating Activities	3,864,070	518,782
Investing Activities		
Purchase of long-term investments	(1,597,051)	(632,700)
Sales and maturities of long-term investments	1,814,170	1,058,966
Contributions to community foundations, net of distributions	(12,474)	(15,550)
Cash received on sale of property and equipment	550	110
Net purchases of property and equipment	(942,859)	(413,048)
Net Cash used for Investing Activities	(737,664)	(2,222)
Financing Activities		
Principal payments on long-term debt	(442,056)	(418,554)
Collections of contributions restricted for capital	156,220	379,289
Net Cash used for Financing Activities	(285,836)	(39,265)
Net Change in Cash, Cash Equivalents, and Restricted Cash	2,840,570	477,295
Beginning Cash, Cash Equivalents, and Restricted Cash	1,163,327	686,032
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 4,003,897	\$ 1,163,327

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
 Consolidated Statements of Cash Flows
 Years Ended June 30, 2020 and 2019

	2020	Adjusted 2019
Cash and Cash Equivalents	\$ 3,746,933	\$ 947,148
Cash Restricted to Housing Replacement	256,964	216,179
Total Cash, Cash Equivalents, and Restricted Cash	\$ 4,003,897	\$ 1,163,327
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 226,005	\$ 254,421
Supplemental Disclosures of Noncash Investing and Financing Activities		
Accounts payable for property and equipment	\$ 73,385	\$ 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 \$661,000 and \$633,000 of program expenses for the years ended June 30, 2020 and 2019, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019, the allowance was \$95,714 and \$44,084, respectively. During 2020, the Organization recognized approximately \$211,000 of bad debt expense above and beyond the estimated allowance as of June 30, 2019, related to receivables recorded prior to 2020, due to collectability issues.

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, 2020 and 2019.

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, less external and internal investment expenses.

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.

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, 2020 and 2019.

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 11). 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, 2020 and 2019

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

The Organization recognizes revenue from client and program services in the period in which the related services are performed. The performance obligations of delivering residential, foster care, counseling, childcare, and other services are simultaneously received and consumed by the clients; therefore, the revenue is recognized ratably over the course of the year. Any amounts received prior to the commencement of the services, including program fees, are deferred to the applicable period.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization does not have any conditional contributions at June 30, 2020 and 2019 that have not been recognized in the accompanying consolidated statements of activities.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. The Organization has not received any cost-reimbursable grants that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred, and no advance payments are recognized in the consolidated statements of financial position as refundable advances, with the exception of the Paycheck Protection Program loan disclosed in Note 9.

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, 2020 and 2019, were approximately \$88,000 and \$144,000, respectively.

Management estimates that volunteers donated approximately 49,000 and 66,000 hours of service in 2020 and 2019, respectively.

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 building and equipment maintenance expenses, are allocated on a square footage basis.

Advertising

Advertising and promotion costs are expensed as incurred. Such costs were \$214,835 and \$139,123 for the years ended June 30, 2020 and 2019, respectively.

Fundraising

The Organization incurred expenses amounting to \$747,495 and \$1,105,206 for the years ended June 30, 2020 and 2019, 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.

Changes in Accounting Policies

As of July 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standards improve the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

As of July 1, 2019, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, by including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. Retrospective application of the amendment is required. The Organization has adopted this standard as management believes this presentation eliminates a diversity in practice in the presentation of restricted cash and restricted cash equivalents in the consolidated statement of cash flows.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 presentation. The reclassifications had no effect on previously reported change in net assets.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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 10 for information on the line of credit.

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash and cash equivalents	\$ 3,746,933	\$ 947,148
Accounts receivable, net	1,554,066	1,756,075
Promises to give, net	337,932	318,224
Accrued income receivable	758,017	660,503
Investments	3,901,973	4,190,822
Total financial assets	<u>10,298,921</u>	<u>7,872,772</u>
Less amounts not available to be used within one year		
Cash held for security on bond	(342,660)	(342,496)
Promises to give due after one year	(117,054)	(143,510)
Investments in non-liquid securities	(13,171)	(13,013)
Total financial assets not available to be used within one year	<u>(472,885)</u>	<u>(499,019)</u>
Donor imposed restrictions		
Restricted funds - capital campaign	(205,405)	(128,560)
Restricted funds - capital projects	(30,000)	(30,000)
Total donor imposed restrictions	<u>(235,405)</u>	<u>(158,560)</u>
Internal designations		
Board designated for endowment purposes - liquid securities	(3,911,179)	(4,174,520)
Distribution of board designated endowment within one year	213,849	209,898
Board designated for east bank capital purposes	-	(29,843)
Designated for apartment project operations	(44,454)	(58,110)
Total internal designations	<u>(3,741,784)</u>	<u>(4,052,575)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,848,847</u>	<u>\$ 3,162,618</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.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Note 3 - Cash and Cash Equivalents

	2020	2019
Undesignated		
Cash on hand	\$ 2,345	\$ 2,945
Cash in checking	3,700,134	886,093
	3,702,479	889,038
Designated for apartment project operations	44,454	58,110
	\$ 3,746,933	\$ 947,148
Total cash and cash equivalents	\$ 3,746,933	\$ 947,148

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2020 and 2019:

	2020	2019
Within one year	\$ 220,878	\$ 174,714
In one to five years	122,450	158,970
Total promises to give	343,328	333,684
Less discount to net present value from 4.5% to 6.75%	(5,396)	(15,460)
Promises to give, net	\$ 337,932	\$ 318,224

At June 30, 2020 and 2019, there were unconditional promises to give from employees and board members totaling \$47,962 and \$49,904, respectively. Total contribution revenues from employees and board members were \$58,216 and \$88,350 for the years ended June 30, 2020 and 2019, 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 \$187,387 and \$187,317 at June 30, 2020 and 2019, 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 \$153,075 and \$153,658 at June 30, 2020 and 2019, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until any distributions are received.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Note 5 - Investments

	2020	2019
Cash and cash equivalents	\$ 200,298	\$ 370,614
Beneficial interests in assets held by community foundations	31,429	17,561
Mutual funds - equity securities	2,584,848	2,677,983
Mutual funds - fixed income	1,234,208	1,242,646
Mutual funds - real assets	255,639	271,326
Life insurance policies	13,171	13,013
Total investments	\$ 4,319,593	\$ 4,593,143

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

	2020	2019
Investments	\$ 3,901,973	\$ 4,190,822
Assets held under split-interest agreements	386,191	384,760
Beneficial interests in assets held by community foundations	31,429	17,561
Total investments	\$ 4,319,593	\$ 4,593,143

The investment return for the years ended June 30, 2020 and 2019, consists of the following components:

	2020	2019
Interest earned, dividends received, and mutual fund capital gains reinvested	\$ 119,768	\$ 147,527
Realized and unrealized (losses) gains on securities	(70,299)	123,597
Total investment return	\$ 49,469	\$ 271,124

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Note 6 - Fair Value of Investments

Assets and liabilities measured at fair value on a recurring basis at June 30, 2020 and 2019 are as follows:

	2020	2019
Mutual funds	\$ 4,074,695	\$ 4,191,955
Beneficial interests in assets held by community foundations	31,429	17,561
Total assets	\$ 4,106,124	\$ 4,209,516
Liabilities under split-interest agreements	\$ 77,265	\$ 78,228
Interest rate swap agreement	164,929	152,304
Total liabilities	\$ 242,194	\$ 230,532

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, 2020</u>			
Mutual funds	\$ 4,074,695	\$ -	\$ -
Beneficial interests in assets held by community foundations	-	-	31,429
Total assets	\$ 4,074,695	\$ -	\$ 31,429
Liabilities under split-interest agreements	\$ -	\$ -	\$ 77,265
Interest rate swap agreement	-	164,929	-
Total liabilities	\$ -	\$ 164,929	\$ 77,265
<u>June 30, 2019</u>			
Mutual funds	\$ 4,191,955	\$ -	\$ -
Beneficial interests in assets held by community foundations	-	-	17,561
Total assets	\$ 4,191,955	\$ -	\$ 17,561
Liabilities under split-interest agreements	\$ -	\$ -	\$ 78,228
Interest rate swap agreement	-	152,304	-
Total liabilities	\$ -	\$ 152,304	\$ 78,228

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.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Following is a reconciliation of activity for assets/liabilities measured at fair value based upon significant unobservable (non-market) inputs (Level 3) for 2019 and 2020:

	Beneficial Interest in Assets Held by Community Foundations	Liabilities Under Split-Interest Agreements
Balance, July 1, 2018	\$ -	\$ (71,475)
New gifts	16,790	-
Change in value	2,011	(6,753)
Distributions	(1,240)	-
Balance, June 30, 2019	17,561	(78,228)
New gifts	12,800	-
Change in value	1,394	963
Distributions	(326)	-
Balance, June 30, 2020	<u>\$ 31,429</u>	<u>\$ (77,265)</u>

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 (HUD), 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, 2020 and 2019, were \$256,964 and \$216,179, 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, 2020, management believes the Lutheran Housing Corporations are in compliance with these agreements.

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

Note 8 - Property and Equipment

	Useful Life	2020		2019	
		Cost	Accumulated Depreciation	Net	Net
Land		\$ 2,655,942	\$ -	\$ 2,655,942	\$ 2,655,942
Buildings and improvements	15 - 40 years	18,327,136	7,146,912	11,180,224	11,082,274
Furniture and equipment	7 - 14 years	3,000,289	2,343,118	657,171	312,997
Automobiles	3 - 5 years	681,101	630,608	50,493	92,675
Work in process		-	-	-	320,157
		<u>\$24,664,468</u>	<u>\$10,120,638</u>	<u>\$14,543,830</u>	<u>\$14,464,045</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, 2020 and 2019, and is reflected as net assets with donor restrictions.

Note 9 - Paycheck Protection Program (PPP) Loan

The Organization was granted a \$2,852,000 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has initially recorded the loan as a liability and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness.

Note 10 - 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, 2021 and is secured by all cash and equipment. Interest on unpaid principal is payable monthly at a rate of 1.25% over the Prime Rate set from time to time by the lender. The line of credit was unused as of June 30, 2020 and 2019.

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Note 11 - Notes Payable

	2020	2019
Variable rate (3.17% at June 30, 2020) 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)	\$ 174,068	\$ 247,346
Variable rate (1.315% at June 30, 2020) 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	1,791,966	2,013,138
Adjustable rate (5.375% until March 4, 2023) note payable to Premier Bank, due in monthly installments of \$2,657, including interest, due March 1, 2033, secured by real property (New Alternatives)	292,652	308,176
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)	896,202	916,296
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)	1,895,788	2,007,776
	\$ 5,050,676	\$ 5,492,732

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 of \$12,625 and \$16,281 relating to the agreement for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 of \$164,929 and \$152,304, respectively.

Interest expense for the years ended June 30, 2020 and 2019 was \$252,765 and \$257,116, respectively. Minimum principal payments on the notes are as follows for the years ending June 30:

2021	\$ 464,483
2022	485,082
2023	1,972,617
2024	313,390
2025	329,287
Thereafter	1,485,817
	\$ 5,050,676

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

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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, 2020.

Note 12 - Net Assets

Net assets consist of the following:

	<u>2020</u>	<u>2019</u>
Without donor restrictions		
Designated by the board of the foundation for endowment purposes	\$ 3,924,350	\$ 4,187,533
Designated for building and equipment replacement	-	29,843
Designated for apartment project operations (checking account)	44,454	58,110
Undesignated	<u>6,257,324</u>	<u>6,604,100</u>
Total without donor restrictions	<u>10,226,128</u>	<u>10,879,586</u>
With donor restrictions		
Subject to expenditure for specified purpose		
Refugee resettlement and placement	89,746	91,524
Disaster response	369,530	36,555
Community services	289,095	227,356
Children and youth programs	50,326	17,665
Capital campaign - future development	253,339	260,562
Capital assets	<u>3,626,483</u>	<u>3,626,483</u>
	<u>4,678,519</u>	<u>4,260,145</u>
Subject to the passage of time		
Assets held under split-interest agreements	308,926	306,532
United Way contributions	418,336	365,638
Assets held by community foundations	44,629	17,561
Promises to give - community foundation assets	-	26,000
	<u>771,891</u>	<u>715,731</u>
Total with donor restrictions	<u>5,450,410</u>	<u>4,975,876</u>
Total net assets	<u>\$ 15,676,538</u>	<u>\$ 15,855,462</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019:

	2020	2019
United Way contributions	\$ 787,438	\$ 723,212
Refugee resettlement and placement	70,743	96,808
Disaster response	156,287	134,339
Community services	323,015	140,145
Children and youth programs	57,904	8,841
Capital campaign - future development	194,286	385,704
Assets held by community foundations	-	1,240
Total net assets released from restrictions	\$ 1,589,673	\$ 1,490,289

Note 13 - 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, 2020 and 2019

Endowment Net Asset Composition by Type of Fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	<u>\$ 3,924,350</u>	<u>\$ -</u>	<u>\$ 3,924,350</u>
Endowment net assets, June 30, 2019	\$ 4,187,533	\$ -	\$ 4,187,533
Investment return			
Investment income	109,422	-	109,422
Net realized and unrealized depreciation	(71,731)	-	(71,731)
Appropriation of endowment assets for expenditure	(309,892)	-	(309,892)
Other changes			
Transfers to create board-designated funds	<u>9,018</u>	<u>-</u>	<u>9,018</u>
Endowment net assets, June 30, 2020	<u>\$ 3,924,350</u>	<u>\$ -</u>	<u>\$ 3,924,350</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	<u>\$ 4,187,533</u>	<u>\$ -</u>	<u>\$ 4,187,533</u>
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	<u>(12,567)</u>	<u>-</u>	<u>(12,567)</u>
Endowment net assets, June 30, 2019	<u>\$ 4,187,533</u>	<u>\$ -</u>	<u>\$ 4,187,533</u>

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.

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 14 - 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 \$287,191 and \$441,382 for the years ended June 30, 2020 and 2019, respectively.

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

Years Ending June 30,		
2021	\$	247,669
2022		167,066
2023		33,615
2024		29,962
2025		29,700
Thereafter		5,034
	\$	513,046

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

Note 15 - 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, 2020 and 2019, respectively. Pension expense was \$116,943 and \$155,116 for the years ended June 30, 2020 and 2019, respectively.

Note 16 - 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 17 - Adjustment Resulting from Change in Accounting Policy

As discussed in Note 1 to the consolidated financial statements, the Organization has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. Accordingly, the June 30, 2019 consolidated statement of cash flows has been adjusted to adopt this standard. Following is a summary of the effects of the change in accounting policy in the Organization's June 30, 2019 consolidated statement of cash flows.

	As Previously Reported	Adjustment	As Adjusted
Investing Activities			
Change in restricted assets	\$ (18,782)	\$ 18,782	\$ -
Net Cash used for Investing Activities	(21,004)	18,782	(2,222)
Net Change in Cash, Cash Equivalents, and Restricted Cash	458,513	18,782	477,295
Beginning Cash, Cash Equivalents, and Restricted Cash	488,635	197,397	686,032
Ending Cash, Cash Equivalents, and Restricted Cash	947,148	216,179	1,163,327

Note 18 - Risks and Uncertainties

COVID-19 Pandemic

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

Note 19 - Subsequent Events

The Organization has evaluated subsequent events through October 30, 2020, the date which the consolidated financial statements were available to be issued.

In August 2020, the building owned by Lutheran Housing Corporation/North Sioux City, Inc. was destroyed by a fire. The Organization is currently working with the U.S. Department of Housing and Urban Development, and the insurance company to determine options for rebuilding or dissolution. Insurance proceeds of approximately \$2,500,000 have been received, with potential obligations to HUD totaling \$2,700,000 plus demolition costs.



Supplementary Information
June 30, 2020 and 2019

**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, 2020

	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	\$ 3,675,875	\$ 26,604	\$ 44,454	\$ -	\$ 3,746,933
Accounts receivable, net	1,544,213	-	9,853	-	1,554,066
Promises to give, net	337,532	400	-	-	337,932
Accrued income receivable	758,017	-	-	-	758,017
Prepaid expenses	61,820	-	463	-	62,283
Investments	4,627	3,897,346	-	-	3,901,973
Beneficial interests in assets held by community foundations	31,429	-	-	-	31,429
Cash restricted to housing replacement	-	-	256,964	-	256,964
Assets held under split-interest agreements	-	386,191	-	-	386,191
Property and equipment, net	14,216,494	-	327,336	-	14,543,830
	<u>\$ 20,630,007</u>	<u>\$ 4,310,541</u>	<u>\$ 639,070</u>	<u>\$ -</u>	<u>\$ 25,579,618</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 334,696	\$ -	\$ 30,534	\$ -	\$ 365,230
Accrued liabilities	1,380,507	-	12,473	-	1,392,980
Liabilities under split-interest agreements	-	77,265	-	-	77,265
Paycheck Protection Program loan	2,852,000	-	-	-	2,852,000
Interest rate swap agreement	164,929	-	-	-	164,929
Notes payable	5,050,676	-	-	-	5,050,676
Total liabilities	<u>9,782,808</u>	<u>77,265</u>	<u>43,007</u>	<u>-</u>	<u>9,903,080</u>
Net Assets					
Without donor restrictions	9,332,198	3,924,350	(3,030,420)	-	10,226,128
With donor restrictions	1,515,001	308,926	3,626,483	-	5,450,410
Total net assets	<u>10,847,199</u>	<u>4,233,276</u>	<u>596,063</u>	<u>-</u>	<u>15,676,538</u>
	<u>\$ 20,630,007</u>	<u>\$ 4,310,541</u>	<u>\$ 639,070</u>	<u>\$ -</u>	<u>\$ 25,579,618</u>

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
Investments	4,625	4,186,197	-	-	4,190,822
Beneficial interests in assets held by community foundations	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					
Liabilities					
Accounts payable	\$ 441,700	\$ -	\$ 21,409	\$ -	\$ 463,109
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>
Net Assets					
Without donor restrictions	9,695,128	4,187,533	(3,003,075)	-	10,879,586
With donor restrictions	1,042,861	306,532	3,626,483	-	4,975,876
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 Activities
Year Ended June 30, 2020

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
Public Support, Revenue, and Other Support							
Public support							
Contributions	\$ 237,206	\$ 485,916	\$ 30,974	\$ -	\$ -	\$ -	\$ 754,096
Church support	128,195	214,295	-	-	-	-	342,490
United Way	387,571	840,135	-	-	-	-	1,227,706
Fees and grants from government agencies	14,064,491	22,500	-	-	-	-	14,086,991
Other grants	58,357	457,714	-	-	-	-	516,071
Total public support	14,875,820	2,020,560	30,974	-	-	-	16,927,354
Revenue							
Client and program income	5,162,305	-	-	-	-	-	5,162,305
Adoptive income	63,268	-	-	-	-	-	63,268
Investment return	10,347	-	37,691	1,431	-	-	49,469
Rent income	24,827	-	-	-	290,907	-	315,734
Donated supplies income	87,533	-	-	-	-	-	87,533
Unrealized loss on interest rate swap agreement	(12,625)	-	-	-	-	-	(12,625)
Change in value of split-interest agreements	-	-	-	963	-	-	963
Change in value of beneficial interests in assets held by community foundations	-	1,394	-	-	-	-	1,394
Miscellaneous income (loss)	75,803	39,859	(21,956)	-	(10,355)	-	83,351
Total revenue	5,411,458	41,253	15,735	2,394	280,552	-	5,751,392
Net assets released from restrictions	1,589,673	(1,589,673)	-	-	-	-	-
Total public support, revenue, and other support	21,876,951	472,140	46,709	2,394	280,552	-	22,678,746

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
 Consolidating Statement of Activities
 Year Ended June 30, 2020

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
Expenses							
Program services							
Residential services	\$ 7,690,847	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,690,847
Foster care	861,318	-	-	-	-	-	861,318
Behavioral health	3,308,884	-	-	-	-	-	3,308,884
Center for New Americans	1,952,523	-	-	-	-	-	1,952,523
Childcare services	1,875,411	-	-	-	-	-	1,875,411
Other services	3,751,899	-	-	-	-	-	3,751,899
Lutheran Housing Corporations	-	-	-	-	307,897	-	307,897
Supporting services							
Management and general	2,361,396	-	-	-	-	-	2,361,396
Development and foundation	747,495	-	-	-	-	-	747,495
Total expenses	22,549,773	-	-	-	307,897	-	22,857,670
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	(672,822)	472,140	46,709	2,394	(27,345)	-	(178,924)
Intercompany Transfers	309,892	-	(309,892)	-	-	-	-
Change in Net Assets	(362,930)	472,140	(263,183)	2,394	(27,345)	-	(178,924)
Net Assets, Beginning of Year	9,695,128	1,042,861	4,187,533	306,532	(3,003,075)	3,626,483	15,855,462
Net Assets, End of Year	\$ 9,332,198	\$ 1,515,001	\$ 3,924,350	\$ 308,926	\$ (3,030,420)	\$ 3,626,483	\$ 15,676,538

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

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Total
	Without Donor Restrictions	With Donor Restrictions	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	\$ -	\$ -	\$ -	\$ 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	14,842,726	1,159,623	13,919	-	-	-	16,016,268
Revenue							
Client and program income	5,218,384	14,140	-	-	-	-	5,232,524
Adoptive income	83,435	-	-	-	-	-	83,435
Investment return	8,039	-	244,375	18,710	-	-	271,124
Rent income	34,414	-	-	-	277,593	-	312,007
Donated supplies income	144,226	-	-	-	-	-	144,226
Unrealized 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 (loss)	95,376	28,229	(26,236)	-	-	-	97,369
Total revenue	5,567,593	44,380	218,139	11,957	277,593	-	6,119,662
Net assets released from restrictions	1,490,289	(1,490,289)	-	-	-	-	-
Total public support, revenue, and other support	21,900,608	(286,286)	232,058	11,957	277,593	-	22,135,930

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

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
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	2,231,761	-	250	-	-	-	2,232,011
Development and foundation	1,105,206	-	-	-	-	-	1,105,206
Total expenses	22,023,810	-	250	-	245,135	-	22,269,195
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	(123,202)	(286,286)	231,808	11,957	32,458	-	(133,265)
Intercompany Transfers	549,300	-	(549,300)	-	-	-	-
Change in Net Assets	426,098	(286,286)	(317,492)	11,957	32,458	-	(133,265)
Net Assets, Beginning of Year	9,269,030	1,329,147	4,505,025	294,575	(3,035,533)	3,626,483	15,988,727
Net Assets, End of Year	\$ 9,695,128	\$ 1,042,861	\$ 4,187,533	\$ 306,532	\$ (3,003,075)	\$ 3,626,483	\$ 15,855,462

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2020

	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	\$ 109,210	\$ (260,789)	\$ (27,345)	\$ -	\$ (178,924)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	713,372	-	36,770	-	750,142
(Gain) loss on sale of property and equipment	(550)	-	10,355	-	9,805
Unrealized loss on interest rate swap agreement	12,625	-	-	-	12,625
Change in value of split-interest agreements	-	(963)	-	-	(963)
Change in value of beneficial interest in assets held by community foundations	(1,394)	-	-	-	(1,394)
Investment loss	-	70,299	-	-	70,299
Change in discount on promises to give	(10,064)	-	-	-	(10,064)
Uncollectibles	358,479	-	-	-	358,479
Contributions restricted for capital	(187,063)	-	-	-	(187,063)
Advance on Paycheck Protection Program loan	2,852,000	-	-	-	2,852,000
Change in assets and liabilities					
Accounts receivable, net	(146,688)	-	(9,782)	-	(156,470)
Promises to give, net	21,074	125	-	-	21,199
Accrued income receivable	(97,514)	-	-	-	(97,514)
Prepaid expenses and other assets	188,759	-	426	-	189,185
Accounts payable	(4,427)	-	9,125	-	4,698
Accrued liabilities	229,028	-	(998)	-	228,030
Net Cash from (used for) Operating Activities	4,036,847	(191,328)	18,551	-	3,864,070
Investing Activities					
Purchases of long-term investments	(2)	(1,597,049)	-	-	(1,597,051)
Sales and maturities of long-term investments	-	1,814,170	-	-	1,814,170
Contributions to community foundations, net	(12,474)	-	-	-	(12,474)
Cash received on sale of property and equipment	550	-	-	-	550
Net purchases of property and equipment	(951,437)	-	8,578	-	(942,859)
Net Cash (used for) from Investing Activities	(963,363)	217,121	8,578	-	(737,664)
Financing Activities					
Principal payments on long-term debt	(442,056)	-	-	-	(442,056)
Collections of contributions restricted for capital	156,220	-	-	-	156,220
Net Cash used for Financing Activities	(285,836)	-	-	-	(285,836)
Net Change in Cash, Cash Equivalents, and Restricted Cash	2,787,648	25,793	27,129	-	2,840,570
Beginning Cash, Cash Equivalents, and Restricted Cash	888,227	811	274,289	-	1,163,327
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 3,675,875	\$ 26,604	\$ 301,418	\$ -	\$ 4,003,897
Cash and Cash Equivalents	\$ 3,675,875	\$ 26,604	\$ 44,454	\$ -	\$ 3,746,933
Cash Restricted to Housing Replacement	-	-	256,964	-	256,964
Total Cash, Cash Equivalents, and Restricted Cash	\$ 3,675,875	\$ 26,604	\$ 301,418	\$ -	\$ 4,003,897

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 (used for) operating activities					
Depreciation	722,586	-	56,183	-	778,769
Loss on sale of property and equipment	8,551	-	-	-	8,551
Unrealized 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 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 (used for) 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)
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	(49,260)	-	(2,222)
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, Cash Equivalents, and Restricted Cash	469,118	811	7,366	-	477,295
Beginning Cash, Cash Equivalents, and Restricted Cash	419,109	-	266,923	-	686,032
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 888,227	\$ 811	\$ 274,289	\$ -	\$ 1,163,327
Cash and Cash Equivalents	\$ 888,227	\$ 811	\$ 58,110	\$ -	\$ 947,148
Cash Restricted to Housing Replacement	-	-	216,179	-	216,179
Total Cash, Cash Equivalents, and Restricted Cash	\$ 888,227	\$ 811	\$ 274,289	\$ -	\$ 1,163,327

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Health and Human Services:				
Direct Programs:				
1810/				
1770/				
1750/				
1821	Refugee and Entrant Assistance - State Replacement Designee Administered Programs	93.566	\$ 646,591	\$ 81,011
1820	Refugee and Entrant Assistance - Wilson/Fish Program	93.583	143,936	-
1920	Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	18,708	-
5553	Basic Center Program	93.623	74,955	-
0015	Provider Relief Fund	93.498	3,719	-
Refugee and Entrant Assistance Discretionary Grants				
1830	Preventive Health Screening	93.576	13,083	13,083
1610	Refugees in Skilled Employment	93.576	171,408	-
Total Refugee and Entrant Assistance Discretionary Grants			<u>184,491</u>	<u>13,083</u>
Passed through South Dakota Department of Health				
5902	Affordable Care Act Personal Responsibility Education Programs	93.092	19SC090130 20SC090130	171,479
5904	Title V State Sexual Risk Avoidance Education Program	93.235	20SC091142 21SC091142	94,763
Passed through South Dakota Department of Social Services				
5900	John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	20SC086601 21SC086601	378,469
Child Care and Development Fund Cluster				
0037/				
0040/				
0045	COVID 19 - Child Care and Development Block Grant	93.575	CCDF Discretionary Cares	24,482
Total Department of Health and Human Services			<u>1,741,593</u>	<u>94,094</u>
Department of State:				
Passed through United States Conference of Catholic Bishops, Migration and Refugee Services				
1620/				
1625	U.S. Refugee Admissions Program	19.510	SPRMCO19CA0024	30,457
Passed through Lutheran Immigration and Refugee Service				
1800	U.S. Refugee Admissions Program	19.510	323-19-SD-00	173,427
Total Department of State			<u>203,884</u>	<u>-</u>

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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 Agriculture:</u>				
Passed through South Dakota Division of Elementary and Secondary Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	\$ 65,525	\$ -
National School Lunch Program	10.555	6140100	118,693	-
Total Child Nutrition Cluster			184,218	-
Child and Adult Care Food Program	10.558	6140100	24,251	-
Total Department of Agriculture			208,469	-
<u>Department of Homeland Security:</u>				
Direct Program:				
1845 Citizenship Education and Training	97.010		129,249	-
Passed through South Dakota Department of Social Services				
2715 Crisis Counseling	97.032	20SC08B632	540	-
Total Department of Homeland Security			129,789	-
<u>Department of Justice:</u>				
Direct Programs:				
1213 Second Chance Act Reentry Initiative	16.812		90,569	-
1218 Children of Incarcerated Parents Web Portal	16.832		8,891	-
Passed through South Dakota Department of Corrections				
3370/ 3377/ 5554/ Juvenile Justice and Delinquency 5664 Prevention	16.540	2016-JFFX-0001	74,631	-
Passed through South Dakota Network Against Family Violence and Sexual Assault				
1216 Justice Systems Response to Families	16.021	2018-FJ-AX-0012	46,554	-
Passed through South Dakota Department of Public Safety				
1244/ 1344 Crime Victim Assistance	16.575	20SC084650	107,529	-
Sexual Assault Services Program	16.017	20SC084650	24,344	-
Total Department of Justice			352,518	-
<u>Department of Education:</u>				
Passed through South Dakota Department of Education				
0052 Twenty-First Century Community Learning Centers	84.287	S287C190042	148,551	-
Passed through South Dakota Department of Labor				
1850 Adult Education - Basic Grants to States	84.002	20-AB-005	160,404	-
Total Department of Education			308,955	-

Lutheran Social Services of South Dakota, Inc.
 Consolidated Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2020

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 Labor:</u>				
Passed through South Dakota Department of Labor WIOA Cluster				
1852 WIOA Adult Program	17.258	20-JT-008	\$ 7,868	\$ -
<u>Department of Housing and Urban Development:</u>				
Passed through South Dakota Housing Association				
6620 Housing Counseling Assistance Program	14.169	HC190841003	106,760	-
Total Federal Financial Assistance			<u>\$ 3,059,836</u>	<u>\$ 94,094</u>

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, 2020. 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.



CPAs & BUSINESS ADVISORS

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, 2020, 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 30, 2020.

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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Lutheran Social Services of South Dakota, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
October 30, 2020



**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance Required by the 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, 2020. 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 \$3,551,400 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2020. 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, 2020.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as *Findings 2020-001, 2020-002, 2020-003, and 2020-004* 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.

Eide Bailly LLP

Sioux Falls, South Dakota
October 30, 2020

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
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 Replacement Designee Administered Programs	93.566
John H. Chafee Foster Care Program for Successful Transition to Adulthood	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

None reported

Section III – Federal Award Findings and Questioned Costs

Finding 2020-001 Passed Through South Dakota Department of Social Services
CFDA 93.674, 20SC086601, 6/1/2019 – 5/31/2020
CFDA 93.674, 21SC086601, 6/1/2020 – 5/31/2021
John H. Chafee Foster Care Program for Successful Transition to Adulthood

**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 indirect costs were calculated using the wrong indirect cost rate for one month based on review of the grant award.

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 6 indirect cost allocations out of 12 total indirect cost allocations were tested which accounted for \$19,865 out of \$39,958 of indirect cost allocation program expenditures.

Repeat Finding from Prior Year: Yes, prior year finding 2019-003

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

View of Responsible Officials: Management is in agreement.

Finding 2020-002 Administration for Children and Families

CFDA 93.566, 1701SDRSOC, 10/1/2016 – 9/30/2018

CFDA 93.566, 1801SDRSOC, 10/1/2017 – 9/30/2019

CFDA 93.566, 1901SDRSOC, 10/1/2018 – 9/30/2020

CFDA 93.566, 2001SDRSOC, 10/1/2019 – 9/30/2021

CFDA 93.566, 2002SDRCMA, 10/1/2019 – 9/30/2020

Refugee and Entrant Assistance – State Replacement Designee Administered Programs

**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. 2 CFR 200.430(i) establishes the standards for documentation of personnel expenses including charges to Federal awards for salaries and wages. Charges must be based on records that accurately reflect the work performed with the records meeting the following standards:

- A) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- B) Be incorporated into the office records of the non-Federal entity.
- C) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities.
- D) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy.
- E) Comply with the established accounting policies and practices of the non-Federal entity.
- F) Support the distribution of the employee's salary or wages among specific activities or cost objectives.
- G) Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes.

Condition: In our sample of expenditures selected for testing, we noted one instance where the federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked.

Cause: Fee based interpreter hours were not included in total federal hours or in total hours.

Effect: Lack of compliance with designed internal controls over tracking federal and nonfederal hours may produce records that do not accurately reflect the work performed by an employee. Costs may be improperly allocated to a federal award if records do not accurately reflect the work performed by an employee.

Questioned Costs: None reported as expenditures as hours excluded from both federal time and overall time did not impact the percentage of time allocated to the grant.

Context: A nonstatistical sample of 29 salary disbursements out of a total of approximately 1,100 salary disbursements were tested which accounted for \$16,654 out of \$308,003 of salary disbursements. In addition, a nonstatistical sample of 5 employee benefit disbursements out of a total of approximately 4,550 employee benefit disbursements were tested which accounts for \$24 out of \$59,326 of employee benefit disbursements.

Repeat Finding from Prior Years: No

Recommendation: We recommend that management review the process over tracking hours worked with related program employees.

View of Responsible Officials: Management is in agreement.

Finding 2020-003 Administration for Children and Families
CFDA 93.566, 1701SDRSOC, 10/1/2016 – 9/30/2018
CFDA 93.566, 1801SDRSOC, 10/1/2017 – 9/30/2019
CFDA 93.566, 1901SDRSOC, 10/1/2018 – 9/30/2020
CFDA 93.566, 2001SDRSOC, 10/1/2019 – 9/30/2021
CFDA 93.566, 2002SDRCMA, 10/1/2019 – 9/30/2020
Refugee and Entrant Assistance – State Replacement Designee Administered Programs

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 a federal financial report did not agree to the supporting award letters for the amount of federal funds authorized from the federal agency as the amount reported was a budget amount.

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

Effect: The amount on the report for funds authorized was not correctly reported. This did not impact the amount of funds received.

Questioned Costs: None reported

Context: Included under the five award letters of the federal program, four quarterly federal financial reports were reviewed in the Organization's fiscal year. In addition, one final federal financial report and one trimester performance report was reviewed in the Organization's fiscal year. There was a total of 17 reports filed.

Repeat Finding from Prior Years: No

Recommendation: We recommend the procedures related to reporting be reviewed with applicable program employees to ensure the amounts reported are accurate.

Views of Responsible Officials: Management is in agreement.

**Finding 2020-004 Passed Through Lutheran Immigration and Refugee Service
CFDA 19.510, 323-19-SD-00, 1/1/2019 – 9/30/2020
U.S. Refugee Admissions Program**

**Passed Through United States Conference of Catholic Bishops, Migration, and Refugee
Services
CFDA 19.510, SPRMC019CA0024, 1/28/2019 – 5/31/2020
U.S. Refugee Admissions Program**

**Special Tests and Provisions
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 Lutheran Immigration and Refugee Service Reception and Placement Program Cooperative Agreement and United States Conference of Catholic Bishops, Migration, and Refugee Services Program Operations Manual for Reception and Placement's Remote Placements require case file documentation to support evidence of required basic needs support and core service delivery.

Condition: In our sample of refugee case files selected for testing, we noted the following:

- 1) One refugee case file was missing a copy of the back side of the social security cards for the family members.
- 2) One refugee case file was missing case activity notes, 30-day assessment home visit form, home supply list, self-sufficiency plan, core services checklist, and adult acknowledgement of receipt of direct assistance for two of the six payments made on behalf of the refugee.

Cause: The peer review of files detected the missing documentation; however, no follow-up procedures were performed to ensure refugee case file documentation was completed and included within the files.

Effect: Ineffective controls over this area of compliance could result in a reasonable possibility that the Organization would not be in compliance with the federal award as it relates to case file management.

Questioned Costs: None reported

Context: A nonstatistical sample of 7 refugee case files out of 42 total refugee case files were selected for testing.

Repeat Finding from Prior Years: No

Recommendation: We recommend the procedures and program requirements regarding case file management be reviewed with applicable program employees to ensure the peer review process includes monitoring of missing case file information.

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, 2020

Prepared by Management of
Lutheran Social Services of South Dakota

Summary Schedule of Prior Audit Findings

Financial Statement Findings

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

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: As a result of audit procedures, a material audit adjustment was proposed. The adjustment related 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.

Status: Procedures have been updated to address the classification of net assets. Procedures were also reviewed and adjusted to allow for staff to obtain the necessary training and knowledge for the preparation of the annual financial statements.

Finding 2019-002 Segregation of Duties

Initial Fiscal Year Finding Occurred: 2017

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.

Status: A quarterly checklist was implemented to review reconciliations of balance sheet accounts and key income statement accounts for accuracy.

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**

Initial Fiscal Year Finding Occurred: 2017

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.

Status: Ongoing. Procedures have been updated to ensure phone costs are allocated appropriately, and the billing spreadsheet was updated to use the correct indirect rate.

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**

Initial Fiscal Year Finding Occurred: 2019

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.

Status: Ongoing. Time trackers have been updated to include fee-based hours paid, and the billing spreadsheet was updated to properly calculate the indirect costs based on allowable direct expenses and the approved indirect cost rate.

Finding 2019-005 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: 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.

Status: Case file requirements were reviewed with employees and new employees to ensure case files comply with program requirements and internal procedures.

Finding 2019-006 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 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.

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

Corrective Action Plan

Findings – Financial Statement

None

Findings – Federal Awards

Finding 2020-001 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Passed Through South Dakota Department of Social Services

CFDA 93.674

John H. Chafee Foster Care Program for Successful Transition to Adulthood

Finding Summary: The indirect costs for one month were calculated by using the wrong indirect cost rate based on review of the grant award.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The billing spreadsheet has been corrected to use the appropriate indirect cost rate.

Anticipated Completion Date: October 1, 2020

Finding 2020-002 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance – State Replacement Designee Administered Programs

Finding Summary: In one instance, the federal time tracker did not properly reflect the employee's federal vs. nonfederal hours worked.

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

Corrective Action Plan: The Organization will work with employees to ensure they understand how to appropriately complete the federal time tracker.

Anticipated Completion Date: November 1, 2020

Finding 2020-003 Reporting

Administration For Children and Families

CFDA 93.566

Refugee and Entrant Assistance – State Replacement Designee Administered Programs

Finding Summary: An amount reported per a federal financial report did not agree to the supporting award letters for the amount of federal funds authorized from the federal agency as the amount reported was a budget amount.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The Organization will update procedures to include only dollars that have been awarded by the federal agency rather than the full award budget that has not yet been allocated.

Anticipated Completion Date: November 1, 2020

Finding 2020-004 Special Tests and Provisions

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. One refugee case file was missing a copy of the back side of the social security cards for the family members.
- b. One refugee case file was missing case activity notes, 30-day assessment home visit form, home supply list, self-sufficiency plan, core services checklist, and adult acknowledgement of receipt of direct assistance for two of the six payments made on behalf of the refugee.

Responsible Individuals: Tim Jurgens

Corrective Action Plan: Procedures are being reviewed to ensure all case file documentation is retained, and missing items from the case file are followed up on in a timely manner.

Anticipated Completion Date: November 15, 2020