DEPARTMENT OF SOCIAL SERVICES
OFFICE OF THE SECRETARY
700 GOVERNORS DRIVE
PIERRE, SD 57501-2291
PHONE: 605-773-3165
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DSS
Strong Families - South Dakota's Foundation and Our Future

July 10, 2019

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

Dear Ms. Oldenkamp:

The Department has reviewed and concurs with findings 2018-001 and 2018-005 from the Single Audit for Lutheran Social Services for the fiscal year ended June 30, 2018. The Department considers LSS's corrective action as proposed in the management response portion of the Single Audit Report as having taken the necessary steps to correct the deficiencies if fully implemented.

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

Sincerely,

Laurie Mikkonen
Chief Financial Officer

cc: DSS CPS

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: January 9, 2019

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, 2018
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 44. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure

Consolidated Financial Statements
June 30, 2018 and 2017

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

EideBailly®

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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, 2018 and 2017, 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.

200 E. 10th St., Ste. 500 | P.O. Box 5125 | Sioux Falls, SD 57117-5125 | T 605.339.1999 | F 605.339.1306 | EOE

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, 2018 and 2017, 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.

Correction of Error
As discussed in Note 16 to the consolidated financial statements, an error resulting in the overstatement of amounts previously recorded as temporarily restricted net assets, temporarily restricted revenues, and net assets released from restrictions in the consolidated financial statements was discovered in 2018 by management of the Organization. Accordingly, amounts reported have been restated in the 2017 consolidated financial statements now presented, and an adjustment has been made to beginning of the year net assets as of July 1, 2017, to correct the error. Our opinion is not modified with respect to that matter.

Report on Supplementary 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 27 through 32, 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 33 through 35, 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.

Report Issued in Accordance with Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2018 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 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 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.

Eide Bailly LLP

Sioux Falls, South Dakota
December 14, 2018

	2018	2017 (Restated)
Assets		
Cash and cash equivalents	$ 488,635	$ 174,625
Accounts receivable, net	1,729,021	1,917,897
Promises to give, net	598,771	939,805
Accrued income receivable	753,746	883,043
Prepaid expenses	229,819	226,890
Investments	4,512,201	4,900,937
Restricted assets	197,397	195,971
Assets held under split-interest agreements	366,050	344,362
Other assets	23,361	26,929
Property and equipment, net	14,662,465	15,177,763
	$ 23,561,466	$ 24,788,222
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 327,377	$ 521,166
Accrued liabilities	1,126,578	1,102,157
Liabilities under split-interest agreements	71,475	79,429
Line of credit	-	8,091
Interest rate swap agreement	136,023	215,598
Notes payable	5,911,286	6,776,905
Total liabilities	7,572,739	8,703,346
Net Assets		
Unrestricted	10,738,522	10,475,130
Temporarily restricted	5,250,205	5,609,746
Total net assets	15,988,727	16,084,876
	$ 23,561,466	$ 24,788,222

	2018 Unrestricted	2018 Temporarily Restricted	2018 Total
Public Support, Revenue, and Other Support			
Public support			
Contributions	$ 445,156	$ 362,624	$ 807,780
Church support	138,184	9,000	147,184
United Way	154,943	666,343	821,286
Fees and grants from government agencies	13,115,035	-	13,115,035
Other grants	48,655	488,496	537,151
Total public support	13,901,973	1,526,463	15,428,436
Revenue			
Client and program income	5,186,777	15,281	5,202,058
Adoptive income	150,818	-	150,818
Investment return	317,227	21,688	338,915
Rent income	372,400	-	372,400
Donated supplies income	86,537	-	86,537
Unrealized gain (loss) on interest rate swap agreement	79,575	-	79,575
Change in value of split-interest agreements	-	7,954	7,954
Miscellaneous income	93,741	11,361	105,102
Total revenue	6,287,075	56,284	6,343,359
Net assets released from restrictions	1,942,288	(1,942,288)	-
Total public support, revenue, and other support	22,131,336	(359,541)	21,771,795
Expenses			
Program services			
Residential services	6,854,689	-	6,854,689
Foster care	1,011,783	-	1,011,783
Behavioral health	2,893,731	-	2,893,731
Center for New Americans	2,670,169	-	2,670,169
Childcare services	1,671,393	-	1,671,393
Other services	3,041,405	-	3,041,405
Lutheran Housing Corporations	295,971	-	295,971
Supporting services			
Management and general	2,283,068	-	2,283,068
Development and foundation	1,145,735	-	1,145,735
Total expenses	21,867,944	-	21,867,944
Change in Net Assets	263,392	(359,541)	(96,149)
Net Assets, Beginning of Year	10,475,130	5,609,746	16,084,876
Net Assets, End of Year	$ 10,738,522	$ 5,250,205	$ 15,988,727

2017 (Restated)		
Unrestricted	Temporarily Restricted	Total
$ 559,793	$ 922,446	$ 1,482,239
151,872	28,809	180,681
189,655	715,357	905,012
13,383,953	396	13,384,349
74,768	333,631	408,399
14,360,041	2,000,639	16,360,680
5,264,131	21,505	5,285,636
212,000	-	212,000
504,815	37,612	542,427
427,464	-	427,464
71,264	-	71,264
116,545	-	116,545
-	3,434	3,434
117,658	1,870	119,528
6,713,877	64,421	6,778,298
2,033,366	(2,033,366)	-
23,107,284	31,694	23,138,978
6,443,943	-	6,443,943
937,078	-	937,078
2,784,232	-	2,784,232
3,624,522	-	3,624,522
1,621,542	-	1,621,542
3,134,371	-	3,134,371
345,018	-	345,018
2,261,623	-	2,261,623
952,577	-	952,577
22,104,906	-	22,104,906
1,002,378	31,694	1,034,072
9,472,752	5,578,052	15,050,804
$ 10,475,130	$ 5,609,746	$ 16,084,876

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

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

	Program Services				
	Residential Services	Foster Care	Behavioral Health	Center for New Americans	Childcare Services
Salaries	$ 4,123,429	$ 212,942	$ 1,799,563	$ 1,662,886	$ 995,924
Employee health and retirement benefits and housing allowance	376,640	33,192	151,875	131,447	87,770
Payroll taxes	373,022	17,732	153,493	142,799	84,776
Travel	80,867	17,754	101,567	62,956	9,979
Conference and training	43,402	4,089	21,419	49,904	10,941
Professional fees	155,136	2,671	60,182	233,397	5,880
Client related expenses	381,191	604,461	24,576	1,004,769	121,657
Supplies	75,300	1,791	25,696	35,468	15,668
Communications	38,771	6,586	43,850	33,887	8,196
Occupancy expenses	418,235	27,698	240,762	212,730	214,252
Outside printing	18,380	1,916	40,913	4,642	15,191
Dues and subscriptions	5,292	643	4,625	11,739	50
Building and equipment maintenance	3,352	22	-	-	-
Uncollectibles	8,997	-	62,612	173	-
Donated supplies	1,000	-	-	-	-
Miscellaneous expenses	42,977	603	17,550	33,342	6,010
	6,145,991	932,100	2,748,683	3,620,139	1,576,294
Depreciation	297,952	4,978	35,549	4,383	45,248
	$ 6,443,943	$ 937,078	$ 2,784,232	$ 3,624,522	$ 1,621,542

			Supporting Services			
Other Services	Lutheran Housing Corporations	Total Program Services	Management and General	Development and Foundation	Total Supporting Services	Total Expenses
$ 1,833,130	$ 56,093	$ 10,683,967	$ 1,161,678	$ 429,257	$ 1,590,935	$ 12,274,902
187,084	5,034	973,042	153,412	53,597	207,009	1,180,051
151,854	6,653	930,329	59,179	30,773	89,952	1,020,281
122,124	-	395,247	31,175	12,764	43,939	439,186
117,054	-	246,809	41,333	10,291	51,624	298,433
141,961	52,101	651,328	240,244	60,877	301,121	952,449
92,240	-	2,228,894	5,347	-	5,347	2,234,241
112,972	19,134	286,029	79,908	25,305	105,213	391,242
73,187	37	204,514	37,656	13,113	50,769	255,283
94,911	128,552	1,337,140	168,025	112,491	280,516	1,617,656
69,334	7,138	157,514	3,104	110,204	113,308	270,822
6,767	50	29,166	9,630	5,124	14,754	43,920
353	-	3,727	89	-	89	3,816
-	7,444	79,226	18,943	-	18,943	98,169
908	-	1,908	-	39,356	39,356	41,264
21,309	1,563	123,354	107,871	37,651	145,522	268,876
3,025,188	283,799	18,332,194	2,117,594	940,803	3,058,397	21,390,591
109,183	61,219	558,512	144,029	11,774	155,803	714,315
$ 3,134,371	$ 345,018	$ 18,890,706	$ 2,261,623	$ 952,577	$ 3,214,200	$ 22,104,906

	2018	2017
Operating Activities		
Change in net assets	$ (96,149)	$ 1,034,072
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	780,372	714,315
In-kind donations of property and equipment	-	(30,000)
Gain on sale of property and equipment	(5,878)	(29,983)
Unrealized gain on interest rate swap agreement	(79,575)	(116,545)
Change in value of split-interest agreements	(7,954)	(3,434)
Investment gain	(109,348)	(360,462)
Change in discount on promises to give	(18,916)	10,121
Contributions restricted for capital	(219,990)	(746,372)
Change in assets and liabilities		
Accounts receivable, net	188,876	(236,779)
Promises to give, net	22,981	(8,921)
Accrued income receivable	129,297	(9,800)
Prepaid expenses and other assets	639	(169,466)
Accounts payable	(55,299)	(15,445)
Accrued liabilities	24,421	(74,039)
Net Cash from (used for) Operating Activities	553,477	(42,738)
Investing Activities		
Purchase of long-term investments	(4,591,181)	(1,171,358)
Sales and maturities of long-term investments	5,067,577	2,452,466
Change in restricted assets	(1,426)	261,121
Cash received on notes receivable	-	38,205
Cash received on sale of property and equipment	5,878	3,121
Net purchases of property and equipment	(403,564)	(1,299,281)
Net Cash from Investing Activities	77,284	284,274
Financing Activities		
Principal payments on long-term debt	(3,032,986)	(982,873)
Proceeds from issuance of long-term debt	2,167,367	-
Net change in line of credit	(8,091)	8,091
Collections of contributions restricted for capital	556,959	517,400
Payments to beneficiaries of split-interest agreements	-	(2,703)
Net Cash used for Financing Activities	(316,751)	(460,085)
Net Change in Cash and Cash Equivalents	314,010	(218,549)
Beginning Cash and Cash Equivalents	174,625	393,174
Ending Cash and Cash Equivalents	$ 488,635	$ 174,625

	2018	2017
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 214,660	$ 177,467
Supplemental Disclosures of Noncash Investing and Financing Activities		
Accounts payable for property and equipment	$ -	$ 138,490
Repayment of long-term debt upon sale of property and equipment	$ -	$ 166,946

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 $606,000 and $605,000 of program expenses for the years ended June 30, 2018 and 2017, respectively.

Principles of Consolidation

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

Lutheran Housing Corporation/Meadowlands sold all of its property and equipment effective January 13, 2017. Lutheran Housing Corporation/Broadway sold all of its property and equipment effective June 30, 2017.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, 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 and notes receivable 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, 2018 and 2017, the allowance was $44,543 and $50,158, respectively.

Promises to Give

The Organization records unconditional promises to give 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, 2018 and 2017.

Investments

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

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 an unrestricted contribution. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

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, 2018 and 2017.

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 9). 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.

Net Assets

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

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

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

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The Organization had no permanently restricted net assets.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

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

Donated materials and services for the years ended June 30, 2018 and 2017, were approximately $87,000 and $71,000, respectively.

Management estimates that volunteers donated approximately 77,100 and 63,400 hours of service in 2018 and 2017, 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.

Advertising

Advertising and promotion costs are expensed as incurred. Such costs were $207,771 and $237,366 for the years ended June 30, 2018 and 2017, respectively.

Fundraising

The Organization incurred expenses amounting to $1,145,735 and $952,577 for the years ended June 30, 2018 and 2017, 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 corporations 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.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation. The reclassifications had no effect on previously reported change in net assets.

Note 2 - Cash and Cash Equivalents

	2018	2017
Undesignated		
Cash on hand	$ 2,945	$ 2,945
Cash in checking	416,164	129,241
Total undesignated	419,109	132,186
Designated for apartment project operations	69,526	42,439
Total cash and cash equivalents	$ 488,635	$ 174,625

Note 3 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017:

	2018	2017
Within one year	$ 381,317	$ 485,698
In one to five years	242,433	498,002
Total promises to give	623,750	983,700
Less discount to net present value at 6.25% and 5.5%, respectively	(24,979)	(43,895)
Promises to give, net	$ 598,771	$ 939,805

At June 30, 2018 and 2017, there were unconditional promises to give from employees and board members totaling $132,696 and $228,840, respectively. Total contribution revenues from employees and board members were $78,836 and $64,965 for the years ended June 30, 2018 and 2017, 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 $194,925 and $198,772 at June 30, 2018 and 2017, respectively. The contributions are recognized as revenue at the time the beneficiary designation becomes irrevocable.

Note 4 - Investments

	2018	2017
Cash and cash equivalents	$ 431,347	$ 139,302
Certificates of deposit	-	556,959
Mutual funds - equity securities	2,761,559	2,770,369
Mutual funds - fixed income	1,672,907	1,766,372
Life insurance policies	12,438	12,297
Total investments	$ 4,878,251	$ 5,245,299

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

	2018	2017
Investments	$ 4,512,201	$ 4,900,937
Assets held under split-interest agreements	366,050	344,362
	$ 4,878,251	$ 5,245,299

The investment return for the years ended June 30, 2018 and 2017, consists of the following components:

	2018	2017
Interest earned, dividends received, and mutual fund capital gains reinvested	$ 229,567	$ 181,965
Realized and unrealized gain on securities	109,348	360,462
	$ 338,915	$ 542,427

Note 5 - Fair Value of Investments

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

	2018	2017
Certificates of deposit	$ -	$ 556,959
Mutual funds	4,434,466	4,536,741
Total assets	$ 4,434,466	$ 5,093,700
Liabilities under split-interest agreements	$ 71,475	$ 79,429
Interest rate swap agreement	136,023	215,598
Total liabilities	$ 207,498	$ 295,027

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)
June 30, 2018			
Mutual funds	$ 4,434,466	$ -	$ -
Total assets	$ 4,434,466	$ -	$ -
Liabilities under split-interest agreements	$ -	$ -	$ 71,475
Interest rate swap agreement	-	136,023	-
Total liabilities	$ -	$ 136,023	$ 71,475
June 30, 2017			
Certificates of deposit	$ -	$ 556,959	$ -
Mutual funds	4,536,741	-	-
Total assets	$ 4,536,741	$ 556,959	$ -
Liabilities under split-interest agreements	$ -	$ -	$ 79,429
Interest rate swap agreement	-	215,598	-
Total liabilities	$ -	$ 215,598	$ 79,429

The fair value for mutual funds is determined by reference to quoted market prices. The certificates of deposit are valued by the custodian of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. For charitable remainder trusts, fair value is estimated at present value of future cash flows. For the interest rate swap agreement, fair value is estimated at the present value of expected future cash flows. The fair value of the interest rate swap is based upon estimates of the related LIBOR swap rate during the term of the swap agreement.

Following is a reconciliation of activity for assets/liabilities measured at fair value based upon significant unobservable (non-market) inputs (Level 3) for 2017 and 2018:

	Liabilities Under Split-Interest Agreements
Balance, July 1, 2016	$ (85,566)
Change in value	3,434
Settlements	2,703
Balance, June 30, 2017	(79,429)
Change in value	7,954
Balance, June 30, 2018	$ (71,475)

Note 6 - Restricted Assets

Pursuant to the regulatory agreements and mortgage agreements with the South Dakota Housing Development Authority and the U.S. Department of Housing and Urban Development, the Lutheran Housing Corporations are required to provide cash escrow accounts to fund repairs and maintenance expenses, insurance expenses, development costs, and residual receipts. Total restricted assets related to these agreements as of June 30, 2018 and 2017, were $197,397 and $195,971, 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, 2018, management believes the Lutheran Housing Corporations are in compliance with these agreements.

Note 7 - Property and Equipment

		2018			2017
	Useful Life	Cost	Accumulated Depreciation	Net	Net
Land		$ 2,655,942	$ -	$ 2,655,942	$ 2,655,942
Buildings and improvements	15 - 40 years	17,274,812	5,692,719	11,582,093	10,654,819
Furniture and equipment	7 - 14 years	3,226,494	2,959,656	266,838	367,416
Automobiles	3 - 5 years	719,798	562,206	157,592	229,261
Work in process		-	-	-	1,270,325
		$ 23,877,046	$ 9,214,581	$ 14,662,465	$ 15,177,763

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, 2018 and 2017, and is reflected as temporarily restricted net assets.

Note 8 - 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, 2019 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. A prior line-of-credit agreement in the total amount of $750,000 under similar terms expired in May 2018. The balance outstanding on these lines-of-credit at June 30, 2018 and 2017 was $-0- and $8,091, respectively.

Note 9 - Notes Payable

	2018	2017
Wells Fargo, 0.89% bond dated October 29, 1997, collateralized by substantially all the organization's real estate, payable in monthly installments of $10,933, including interest through November 1, 2017, when full payment was due	$ -	$ 49,549
3.65% imputed interest, contract for deed to Kilian Community College, due in monthly installments of $50,000 through December 31, 2017, when full payment was due, secured by real estate, refinanced with Great Western Bank	-	2,361,947
3.75% note payable to Mission Investment Fund of the Evangelical Lutheran Church in America, interest only payments until February 1, 2016, thereafter monthly principal and interest payments of $1,768 through January 1, 2018, when full payment was due, secured by a certificate of deposit	-	260,337
Variable rate (3.17% at June 30, 2018) 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)	318,272	387,510
Variable rate (2.50% at June 30, 2018) Minnehaha County, South Dakota Economic Development Revenue Bonds, Series 2006, due in varying monthly installments increasing annually, plus interest, due February 1, 2027, secured by real property	2,223,546	2,423,706
3.75% through March 4, 2018, then 5.375% note payable to Premier Bank, due in monthly installments of $2,657, including interest, due March 1, 2033, secured by real property (New Alternatives)	322,743	338,106
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)	935,579	955,750
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)	2,111,146	-
	$ 5,911,286	$ 6,776,905

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 gains of $79,575 and $116,545 relating to the agreement for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 of $136,023 and $215,598, respectively.

Interest expense for the years ended June 30, 2018 and 2017, was $266,283 and $280,678, respectively. Minimum principal payments on the notes are as follows for the years ending June 30:

2019	$ 422,757
2020	441,947
2021	462,570
2022	483,998
2023	1,972,230
Thereafter	2,127,784
	$ 5,911,286

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, 2018.

Note 10 - Net Assets

	2018	2017 (Restated)
Unrestricted net assets		
Designated by the board of the foundation for endowment purposes	$ 4,505,025	$ 4,347,370
Designated for apartment project operations (checking account)	69,526	42,439
Undesignated	6,163,971	6,085,321
	10,738,522	10,475,130
Temporarily restricted net assets		
Restricted for		
Time restricted contributions - split interest agreements	294,575	264,933
Time restricted contributions - United Way	361,300	386,683
Refugee resettlement and placement	107,744	73,276
Disaster response	110,862	134,239
Community services	177,455	149,628
Children and youth programs	16,356	33,869
Capital campaign - future development	555,430	940,635
Capital assets	3,626,483	3,626,483
	5,250,205	5,609,746
Total net assets	$ 15,988,727	$ 16,084,876

Net assets were released from donor restrictions by incurring the expenses satisfying the restricted purposes or by occurrence of events specified by donors.

	2018		2017 (Restated)	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Time restricted contributions - United Way	$ 691,725	$ (691,725)	$ 696,412	$ (696,412)
Refugee resettlement and placement	80,746	(80,746)	127,715	(127,715)
Disaster response	402,253	(402,253)	289,870	(289,870)
Community services	128,762	(128,762)	149,269	(149,269)
Children and youth programs	33,607	(33,607)	44,634	(44,634)
Capital campaign - future development	605,195	(605,195)	725,466	(725,466)
Total net assets released from restrictions	$ 1,942,288	$ (1,942,288)	$ 2,033,366	$ (2,033,366)

Note 11 - Endowment Net Asset Composition by Type of Fund

The Organization's endowment consists of funds that have been gifted to the Organization by donors with no 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 permanently restricted. 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, Lutheran Social Services will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization 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.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 4,505,025	$ -	$ -	$ 4,505,025

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	$ 4,347,370	$ -	$ -	$ 4,347,370
Investment return:				
Investment income	206,619	-	-	206,619
Net realized and unrealized appreciation	87,659	-	-	87,659
Appropriation of endowment assets for expenditure	(186,060)	-	-	(186,060)
Other changes:				
Transfers to create board-designated funds	49,437	-	-	49,437
Endowment net assets, June 30, 2018	$ 4,505,025	$ -	$ -	$ 4,505,025

Endowment Net Asset Composition by Type of Fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 4,347,370	$ -	$ -	$ 4,347,370

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 4,463,081	$ -	$ -	$ 4,463,081
Investment return:				
Investment income	154,377	-	-	154,377
Net realized and unrealized depreciation	313,116	-	-	313,116
Appropriation of endowment assets for expenditure	(799,776)	-	-	(799,776)
Other changes:				
Transfers to create board-designated funds	216,572	-	-	216,572
Endowment net assets, June 30, 2017	$ 4,347,370	$ -	$ -	$ 4,347,370

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 12 - 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 $496,216 and $492,118 for the years ended June 30, 2018 and 2017, respectively.

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

Years Ending June 30,	
2019	$ 419,281
2020	194,869
2021	158,003
2022	82,187
2023	18,551
Thereafter	4,730
	$ 877,621

Note 13 - 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% and 2.5% of the respective employees' base pay to the plan for the years ended June 30, 2018 and 2017, respectively. Pension expense was $113,204 and $163,132 for the years ended June 30, 2018 and 2017, respectively.

Note 14 - 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 15 - Subsequent Events

The Organization has evaluated subsequent events through December 14, 2018December 14, 2018, the date which the consolidated financial statements were available to be issued.

Note 16 - Correction of Error

During 2018, management identified an error related to the presentation of the United Way funding between unrestricted and temporarily restricted revenue due to a combination of a clerical oversight and a misclassification of certain program revenues being recorded as a contribution rather than an exchange transaction. Correction of this error resulted in the restatement of the prior year financial statements.

The restatement as of and for the year ended June 30, 2017 affected the following:

	As Previously Reported	As Restated	Adjustment
Consolidated Statements of Financial Position			
Unrestricted net assets	$ 10,238,529	$ 10,475,130	$ 236,601
Temporarily restricted net assets	5,846,347	5,609,746	(236,601)

	As Previously Reported		
	Unrestricted	Temporarily Restricted	Total
Consolidated Statements of Activities			
United Way	$ -	$ 905,012	$ 905,012
Total public support	12,611,747	2,190,294	14,802,041
Net assets released from restrictions	2,168,502	(2,168,502)	-
Total public support, revenue, and other support	23,052,765	86,213	23,138,978
Change in net assets	947,859	86,213	1,034,072
Net assets, beginning of year	9,290,670	5,760,134	15,050,804
Net assets, end of year	10,238,529	5,846,347	16,084,876

	As Restated		
	Unrestricted	Temporarily Restricted	Total
Consolidated Statements of Activities			
United Way	$ 189,655	$ 715,357	$ 905,012
Total public support	14,360,041	2,000,639	16,360,680
Net assets released from restrictions	2,033,366	(2,033,366)	-
Total public support, revenue, and other support	23,107,284	31,694	23,138,978
Change in net assets	1,002,378	31,694	1,034,072
Net assets, beginning of year	9,472,752	5,578,052	15,050,804
Net assets, end of year	10,475,130	5,609,746	16,084,876

	Adjustment		
	Unrestricted	Temporarily Restricted	Total
Consolidated Statements of Activities			
United Way	$ 189,655	$ (189,655)	$ -
Total public support	1,748,294	(189,655)	1,558,639
Net assets released from restrictions	(135,136)	135,136	-
Total public support, revenue, and other support	54,519	(54,519)	-
Change in net assets	54,519	(54,519)	-
Net assets, beginning of year	182,082	(182,082)	-
Net assets, end of year	236,601	(236,601)	-

	As Previously Reported	As Restated	Adjustment
Notes to Consolidated Financial Statements			
Net Assets			
Unrestricted net assets			
Undesignated	$ 5,848,720	$ 6,085,321	$ 236,601
Total unrestricted net assets	10,238,529	10,475,130	236,601
Temporarily restricted net assets			
Time restricted contributions - United Way	623,284	386,683	(236,601)
Total temporarily restricted net assets	5,846,347	5,609,746	(236,601)

	As Previously Reported	
	Unrestricted	Temporarily Restricted
Note 10 to Consolidated Financial Statements		
Net Assets		
Net assets released for restrictions		
Time restricted contributions - United Way	$ 831,548	$ (831,548)
Total net assets released for restrictions	2,168,502	(2,168,502)

	As Restated	
	Unrestricted	Temporarily Restricted
Notes to Consolidated Financial Statements		
Net Assets		
Net assets released for restrictions		
Time restricted contributions - United Way	$ 696,412	$ (696,412)
Total net assets released for restrictions	2,033,366	(2,033,366)

	Adjustment	
	Unrestricted	Temporarily Restricted
Notes to Consolidated Financial Statements		
Net Assets		
Net assets released for restrictions		
Time restricted contributions - United Way	$ (135,136)	$ 135,136
Total net assets released for restrictions	(135,136)	135,136

Supplementary Information
June 30, 2018 and 2017

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

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Assets					
Cash and cash equivalents	$ 419,109	$ -	$ 69,526	$ -	$ 488,635
Accounts receivable, net	1,729,710	-	(689)	-	1,729,021
Promises to give, net	597,871	900	-	-	598,771
Accrued income receivable	753,746	-	-	-	753,746
Prepaid expenses	229,442	-	377	-	229,819
Due from related entity	3,304	-	-	(3,304)	-
Investments	4,792	4,507,409	-	-	4,512,201
Restricted assets	-	-	197,397	-	197,397
Assets held under split-interest agreements	-	366,050	-	-	366,050
Other assets	23,361	-	-	-	23,361
Property and equipment, net	14,272,503	-	389,962	-	14,662,465
	$ 18,033,838	$ 4,874,359	$ 656,573	$ (3,304)	$ 23,561,466
Liabilities and Net Assets					
Accounts payable	$ 275,812	$ -	$ 51,565	$ -	$ 327,377
Due to related entity	-	3,284	20	(3,304)	-
Accrued liabilities	1,112,540	-	14,038	-	1,126,578
Liabilities under split-interest agreements	-	71,475	-	-	71,475
Line of credit	-	-	-	-	-
Interest rate swap agreement	136,023	-	-	-	136,023
Notes payable	5,911,286	-	-	-	5,911,286
Total liabilities	7,435,661	74,759	65,623	(3,304)	7,572,739
Unrestricted	9,269,030	4,505,025	(3,035,533)	-	10,738,522
Temporarily restricted	1,329,147	294,575	3,626,483	-	5,250,205
Total net assets	10,598,177	4,799,600	590,950	-	15,988,727
	$ 18,033,838	$ 4,874,359	$ 656,573	$ (3,304)	$ 23,561,466

	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	$ 130,566	$ 1,620	$ 42,439	$ -	$ 174,625
Accounts receivable, net	1,917,897	-	-	-	1,917,897
Promises to give, net	938,005	1,800	-	-	939,805
Accrued income receivable	883,043	-	-	-	883,043
Prepaid expenses	226,278	-	612	-	226,890
Due from related entity	17,370	-	-	(17,370)	-
Investments	556,987	4,343,950	-	-	4,900,937
Restricted assets	-	-	195,971	-	195,971
Assets held under split-interest agreements	-	344,362	-	-	344,362
Other assets	26,929	-	-	-	26,929
Property and equipment, net	14,722,851	-	454,912	-	15,177,763
	$ 19,419,926	$ 4,691,732	$ 693,934	$ (17,370)	$ 24,788,222
Liabilities and Net Assets					
Accounts payable	$ 472,742	$ -	$ 48,424	$ -	$ 521,166
Due to related entity	-	-	17,370	(17,370)	-
Accrued liabilities	1,086,573	-	15,584	-	1,102,157
Liabilities under split-interest agreements	-	79,429	-	-	79,429
Line of credit	8,091	-	-	-	8,091
Interest rate swap agreement	215,598	-	-	-	215,598
Notes payable	6,776,905	-	-	-	6,776,905
Total liabilities	8,559,909	79,429	81,378	(17,370)	8,703,346
Unrestricted	9,141,687	4,347,370	(3,013,927)	-	10,475,130
Temporarily restricted	1,718,330	264,933	3,626,483	-	5,609,746
Total net assets	10,860,017	4,612,303	612,556	-	16,084,876
	$ 19,419,926	$ 4,691,732	$ 693,934	$ (17,370)	$ 24,788,222

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Public Support, Revenue, and Other Support				
Public support				
Contributions	$ 370,907	$ 362,624	$ 74,249	$ -
Church support	138,184	9,000	-	-
United Way	154,943	666,343	-	-
Fees and grants from government agencies	13,115,035	-	-	-
Other grants	48,655	488,496	-	-
Total public support	13,827,724	1,526,463	74,249	-
Revenue				
Client and program income	5,186,777	15,281	-	-
Adoptive income	150,818	-	-	-
Investment return	22,949	-	294,278	21,688
Rent income	97,640	-	-	-
Donated supplies income	86,537	-	-	-
Unrealized gain on interest rate swap agreement	79,575	-	-	-
Change in value of split-interest agreements	-	-	-	7,954
Miscellaneous income (loss)	118,543	11,361	(24,802)	-
Total revenue	5,742,839	26,642	269,476	29,642
Net assets released from restrictions	1,942,288	(1,942,288)	-	-
Total public support, revenue, and other support	21,512,851	(389,183)	343,725	29,642
Expenses				
Program services				
Residential services	6,854,689	-	-	-
Foster care	1,011,783	-	-	-
Behavioral health	2,893,731	-	-	-
Center for New Americans	2,670,169	-	-	-
Childcare services	1,671,393	-	-	-
Other services	3,041,405	-	-	-
Lutheran Housing Corporations	-	-	-	-
Supporting services				
Management and general	2,283,058	-	10	-
Development and foundation	1,145,735	-	-	-
Total expenses	21,571,963	-	10	-
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	(59,112)	(389,183)	343,715	29,642
Intercompany Transfers	186,455	-	(186,060)	-
Change in Net Assets	127,343	(389,183)	157,655	29,642
Net Assets, Beginning of Year	9,141,687	1,718,330	4,347,370	264,933
Net Assets, End of Year	$ 9,269,030	$ 1,329,147	$ 4,505,025	$ 294,575

Lutheran Housing Corporations			
Unrestricted	Temporarily Restricted	Eliminations	Total
$ -	$ -	$ -	$ 807,780
-	-	-	147,184
-	-	-	821,286
-	-	-	13,115,035
-	-	-	537,151
-	-	-	15,428,436
-	-	-	5,202,058
-	-	-	150,818
-	-	-	338,915
274,760	-	-	372,400
-	-	-	86,537
-	-	-	79,575
-	-	-	7,954
-	-	-	105,102
274,760	-	-	6,343,359
-	-	-	-
274,760	-	-	21,771,795
-	-	-	6,854,689
-	-	-	1,011,783
-	-	-	2,893,731
-	-	-	2,670,169
-	-	-	1,671,393
-	-	-	3,041,405
295,971	-	-	295,971
-	-	-	2,283,068
-	-	-	1,145,735
295,971	-	-	21,867,944
(21,211)	-	-	(96,149)
(395)	-	-	-
(21,606)	-	-	(96,149)
(3,013,927)	3,626,483	-	16,084,876
$ (3,035,533)	$ 3,626,483	$ -	$ 15,988,727

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Public Support, Revenue, and Other Support				
Public support				
Contributions	$ 323,523	$ 922,446	$ 236,270	$ -
Church support	151,872	28,809	-	-
United Way	189,655	715,357	-	-
Fees and grants from government agencies	13,383,953	396	-	-
Other grants	74,768	333,631	-	-
Total public support	14,123,771	2,000,639	236,270	-
Revenue				
Client and program income	5,264,131	21,505	-	-
Adoptive income	212,000	-	-	-
Investment return	37,322	-	467,493	37,612
Rent income	140,854	-	-	-
Donated supplies income	71,264	-	-	-
Unrealized gain on interest rate swap agreement	116,545	-	-	-
Change in value of split-interest agreements	-	-	-	3,434
Miscellaneous income (loss)	74,157	1,870	(19,658)	-
Total revenue	5,916,273	23,375	447,835	41,046
Net assets released from restrictions	2,033,366	(2,033,366)	-	-
Total public support, revenue, and other support	22,073,410	(9,352)	684,105	41,046
Expenses				
Program services				
Residential services	6,443,943	-	-	-
Foster care	937,078	-	-	-
Behavioral health	2,784,232	-	-	-
Center for New Americans	3,624,522	-	-	-
Childcare services	1,621,542	-	-	-
Other services	3,134,371	-	-	-
Lutheran Housing Corporations	-	-	-	-
Supporting services				
Management and general	2,261,583	-	40	-
Development and foundation	952,577	-	-	-
Total expenses	21,759,848	-	40	-
Excess (Deficit) of Public Support, Revenue, and Other Support over Expenses	313,562	(9,352)	684,065	41,046
Intercompany Transfers	765,364	-	(799,776)	-
Change in Net Assets	1,078,926	(9,352)	(115,711)	41,046
Net Assets, Beginning of Year	8,062,761	1,727,682	4,463,081	223,887
Net Assets, End of Year	$ 9,141,687	$ 1,718,330	$ 4,347,370	$ 264,933

Lutheran Housing Corporations			
Unrestricted	Temporarily Restricted	Eliminations	Total
$ -	$ -	$ -	$ 1,482,239
-	-	-	180,681
-	-	-	905,012
-	-	-	13,384,349
-	-	-	408,399
-	-	-	16,360,680
-	-	-	5,285,636
-	-	-	212,000
-	-	-	542,427
286,610	-	-	427,464
-	-	-	71,264
-	-	-	116,545
-	-	-	3,434
63,159	-	-	119,528
349,769	-	-	6,778,298
-	-	-	-
349,769	-	-	23,138,978
-	-	-	6,443,943
-	-	-	937,078
-	-	-	2,784,232
-	-	-	3,624,522
-	-	-	1,621,542
-	-	-	3,134,371
345,018	-	-	345,018
-	-	-	2,261,623
-	-	-	952,577
345,018	-	-	22,104,906
4,751	-	-	1,034,072
34,412	-	-	-
39,163	-	-	1,034,072
(3,053,090)	3,626,483	-	15,050,804
$ (3,013,927)	$ 3,626,483	$ -	$ 16,084,876

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	$ (261,840)	$ 187,297	$ (21,606)	$ -	$ (96,149)
Adjustments to reconcile change in net assets to net cash from operating activities					
Depreciation	701,925	-	78,447	-	780,372
Gain on sale of property and equipment	(5,878)	-	-	-	(5,878)
Unrealized gain on interest rate swap agreement	(79,575)	-	-	-	(79,575)
Change in value of split-interest agreements	-	(7,954)	-	-	(7,954)
Investment gain	-	(109,348)	-	-	(109,348)
Change in discount on promises to give	(18,916)	-	-	-	(18,916)
Contributions restricted for capital	(219,990)	-	-	-	(219,990)
Change in assets and liabilities					
Accounts receivable, net	188,187	-	689	-	188,876
Promises to give, net	22,081	900	-	-	22,981
Accrued income receivable	129,297	-	-	-	129,297
Prepaid expenses and other assets	404	-	235	-	639
Due to/from related entities	14,066	3,284	(17,350)	-	-
Accounts payable	(58,440)	-	3,141	-	(55,299)
Accrued liabilities	25,967	-	(1,546)	-	24,421
Net Cash from Operating Activities	437,288	74,179	42,010	-	553,477
Investing Activities					
Purchases of long-term investments	(4,623)	(4,586,558)	-	-	(4,591,181)
Sales and maturities of long-term investments	556,818	4,510,759	-	-	5,067,577
Change in restricted assets	-	-	(1,426)	-	(1,426)
Cash received on sale of property and equipment	5,878	-	-	-	5,878
Net purchases of property and equipment	(390,067)	-	(13,497)	-	(403,564)
Net Cash from (used for) Investing Activities	168,006	(75,799)	(14,923)	-	77,284
Financing Activities					
Principal payments on long-term debt	(3,032,986)	-	-	-	(3,032,986)
Proceeds from issuance of long-term debt	2,167,367	-	-	-	2,167,367
Net change in line of credit	(8,091)	-	-	-	(8,091)
Collections of contributions restricted for capital	556,959	-	-	-	556,959
Payments to beneficiaries of split-interest agreements	-	-	-	-	-
Net Cash used for Financing Activities	(316,751)	-	-	-	(316,751)
Net Change in Cash and Cash Equivalents	288,543	(1,620)	27,087	-	314,010
Beginning Cash and Cash Equivalents	130,566	1,620	42,439	-	174,625
Ending Cash and Cash Equivalents	$ 419,109	$ -	$ 69,526	$ -	$ 488,635

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	$ 1,069,574	$ (74,665)	$ 39,163	$ -	$ 1,034,072
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	653,096	-	61,219	-	714,315
In-kind donations of property and equipment	(30,000)	-	-	-	(30,000)
Gain on sale of property and equipment	(25)	-	(29,958)	-	(29,983)
Unrealized gain on interest rate swap agreement	(116,545)	-	-	-	(116,545)
Change in value of split-interest agreements	-	(3,434)	-	-	(3,434)
Investment loss	(11,942)	(348,520)	-	-	(360,462)
Change in discount on promises to give	10,121	-	-	-	10,121
Contributions restricted for capital	(746,372)	-	-	-	(746,372)
Change in assets and liabilities					
Accounts receivable, net	(243,295)	-	6,516	-	(236,779)
Promises to give, net	(10,547)	1,626	-	-	(8,921)
Accrued income receivable	(9,800)	-	-	-	(9,800)
Prepaid expenses and other assets	(168,854)	-	(612)	-	(169,466)
Due to/from related entities	(56,572)	39,262	17,310	-	-
Accounts payable	5,067	-	(20,512)	-	(15,445)
Accrued liabilities	(71,808)	-	(2,231)	-	(74,039)
Net Cash from (used for) Operating Activities	272,098	(385,731)	70,895	-	(42,738)
Investing Activities					
Purchases of long-term investments	(280,647)	(890,711)	-	-	(1,171,358)
Sales and maturities of long-term investments	1,171,726	1,280,740	-	-	2,452,466
Change in restricted assets	198,785	-	62,336	-	261,121
Cash received on notes receivable	38,205	-	-	-	38,205
Cash received on sale of property and equipment	25	-	3,096	-	3,121
Net purchases of property and equipment	(1,222,102)	-	(77,179)	-	(1,299,281)
Net Cash from (used for) Investing Activities	(94,008)	390,029	(11,747)	-	284,274
Financing Activities					
Principal payments on long-term debt	(927,894)	-	(54,979)	-	(982,873)
Net change in line of credit	8,091	-	-	-	8,091
Collections of contributions restricted for capital	517,400	-	-	-	517,400
Payments to beneficiaries of split-interest agreements	-	(2,703)	-	-	(2,703)
Net Cash used for Financing Activities	(402,403)	(2,703)	(54,979)	-	(460,085)
Net Change in Cash and Cash Equivalents	(224,313)	1,595	4,169	-	(218,549)
Beginning Cash and Cash Equivalents	354,879	25	38,270	-	393,174
Ending Cash and Cash Equivalents	$ 130,566	$ 1,620	$ 42,439	$ -	$ 174,625

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 Refugee and Entrant Assistance-State Administered Programs	93.566		$ 452,565	$ 100,451
1820 Refugee and Entrant Assistance-Wilson/Fish Program	93.583		511,409	-
1920 Refugee and Entrant Assistance-Targeted Assistance Grants	93.584		118,390	-
5553 Basic Center Program	93.623		76,992	-
Refugee and Entrant Assistance Discretionary Grants				
1830 Preventive Health Screening	93.576		65,408	64,233
1980 Targeted Assistance Grant Program	93.576		149,074	-
Total Refugee and Entrant Assistance Discretionary Grants			214,482	64,233
Passed through South Dakota Department of Health				
5902 Affordable Care Act Personal Responsibility Education Programs	93.092	17SC090388	157,643	-
Passed through South Dakota Department of Social Services		17SC086601		
5900 Chafee Foster Care Independence Program	93.674	18SC086601	318,744	-
Passed through US Committee For Refugees and Immigrants				
1990 Trafficking Victim Assistance Program	93.598	90ZV0123	3,928	-
Passed through Lutheran Immigration and Refugee Service				
1890 Refugee and Entrant Assistance-Voluntary Agency Programs	93.567	342-17-SD-01	32,434	-
Total Department of Health and Human Services			$ 1,886,587	$ 164,684
Department of State:				
Passed through Lutheran Immigration and Refugee Service		SPRMCO16CA1002		
1800 U.S. Refugee Admissions Program	19.510	SPRMCO17CA1010	$ 403,517	$ -
Department of Agriculture:				
Passed through South Dakota Division of Elementary and Secondary Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	$ 63,836	$ -
National School Lunch Program	10.555	6140100	117,128	-
Total Child Nutrition Cluster			180,964	-
Child and Adult Care Food Program	10.558	6140100	23,670	-
Total Department of Agriculture			$ 204,634	$ -

See Notes to Consolidated Schedule of Expenditures of Federal Awards

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 Homeland Security:				
Direct Program:				
1845 Citizenship Education and Training	97.010		$ 129,890	$ -
Department of Justice:				
Direct Program:				
1213 Young Mothers Project	16.812		$ 32,188	$ -
Passed through South Dakota Department of Corrections				
3377/ 5554/ 5664 Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	2016DMC01 2017DMC01 2017DMC02	103,014	-
0003 PREA Program: Strategic Support for PREA Implementation	16.735	PREA2017-09	15,587	-
Passed through South Dakota Department of Social Services				
1244 Crime Victim Assistance	16.575	17SC084650	56,088	-
Sexual Assault Services Program	16.017	17SC084560	31,272	-
Total Department of Justice			$ 238,149	$ -
Department of Education:				
Passed through South Dakota Department of Education				
0046 Twenty-First Century Community Learning Centers	84.287	S287C160042	$ 149,852	$ -
Passed through South Dakota Department of Labor				
1850 Adult Education - ABE-GED	84.002	17-AB-005	216,766	-
Total Department of Education			$ 366,618	$ -
Department of Housing and Urban Development:				
Direct Program:				
Mortgage Restructuring Note	14.175		$ 81,390	$ -
Passed through Rapid City Community Development				
5555 Community Development Block Grants	14.253	10/13/2016	10,500	-
Passed through South Dakota Housing Association				
6620 Housing Counseling Assistance Program	14.169	HC160841003	139,754	-
Total Department of Housing and Urban Development			231,644	-
Grand Total All Funds			$ 3,461,039	$ 164,684

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, 2018. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the 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 modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

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

Note 4 - Child Nutrition Cluster

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

Note 5 - Crime Victim Assistance and Sexual Assault Services Program

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

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

To The Board of Directors and Audit Committee
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, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 14, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc.'s internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-A to be a material weakness.

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

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

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

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

Eide Bailly LLP

Sioux Falls, South Dakota
December 14, 2018

EideBailly
CPAs & BUSINESS ADVISORS

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

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

Report on Compliance for Each Major Federal Program
We have audited Lutheran Social Services of South Dakota, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lutheran Social Services of South Dakota, Inc.'s major federal programs for the year ended June 30, 2018. 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/Northport and Lutheran Housing Corporation/Prairie Lakes, which are nonprofit South Dakota corporations under common control (collectively Housing Corporations). The Housing Corporations received $3,531,483 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of these Housing Corporations because they engaged other auditors to perform an audit in accordance with the Uniform Guidance.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for 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 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 of each of its major federal programs for the year ended June 30, 2018.

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 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 the Lutheran Social Services of South Dakota, Inc.'s internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider a deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-007 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006 and 2018-008 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
December 14, 2018

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

Name of Federal Program	CFDA Number
U.S. Refugee Admissions Program	19.510
Refugee and Entrant Assistance-Wilson/Fish Program	93.583
Chafee Foster Care Independence Program	93.674
Refugee and Entrant Assistance-State Administered Programs	93.566

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2018-A **Preparation of Financial Statements and Restatement Material Weakness**

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

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

Cause: The Organization had limited staff during the year due to turnover. The error in presentation of United Way funding was due to a combination of a clerical mistake and the classification of certain program revenues between exchange transactions and contributions.

Effect: Inadequate controls over financial reporting of the Organization could result in the likelihood that the Organization would not be able to draft the consolidated financial statements and accompanying notes to the consolidated financial statements that are correct without the assistance of the auditors. An entry to record a prior period adjustment was posted to reclassify beginning net assets for an understatement of unrestricted net assets and overstatement of temporarily restricted net assets of $236,600.

Recommendation: We recommend management review the process for posting year-end closing journal entries to ensure proper financial statement presentation.

Views of Responsible Officials: Management is in agreement.

Finding 2018-B **Segregation of Duties**
Significant Deficiency

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

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

Cause: There has been turnover and leaves of absence in the accounts receivable and finance department that have not allowed for proper segregation of duties.

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

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

Views of Responsible Officials: Management is in agreement.

Section III – Federal Award Findings and Questioned Costs

Finding 2018-001

Administration For Children and Families
CFDA 93.583, 90RW0049, 9/30/2016 – 9/29/2017 and 9/30/2017 – 9/29/2018
Refugee and Entrant Assistance Wilson/Fish Program

Passed Through South Dakota Department of Social Services
CFDA 93.674, 18SC086601, 6/1/2017 – 5/31/2018
CFDA 93.674, 19SC086601, 6/1/2018 – 5/31/2019
Chaffee Foster Care Independence Program

Administration For Children and Families
CFDA 93.566, 1501SDRSOC, 10/1/2014 - 9/30/2017
CFDA 93.566, 1601SDRSOC, 10/1/2015 - 9/30/2018
CFDA 93.566, 1701SDRSOC, 10/1/2016 - 9/30/2019
CFDA 93.566, 1801SDRSOC, 10/1/2017 - 9/30/2020
Refugee and Entrant Assistance-State Administered Programs

Allowable Costs and Allowable Activities
Significant Deficiency in Internal Control over Compliance

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

Condition: In our sample of expenditures selected for testing, we noted the following items:

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

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

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

Questioned Costs: Questioned costs were $13,652 for CFDA 93.583. Questioned costs were $979 for CFDA 93.674. Questioned costs were not determined for CFDA 93.566.

Context: CFDA 93.583 - A nonstatistical sample of 28 payroll disbursements were tested which accounted for $13,408 out of $236,718 of payroll program expenditures and a nonstatistical sample of 12 indirect allocations were tested which accounted for $8,458 out of $101,837 of indirect allocation program expenditures. CFDA 93.674 - A nonstatistical sample of 14 indirect allocations were tested which accounted for $29,380 out of $84,282 of indirect allocation program expenditures. CFDA 93.566 - A nonstatistical sample of 29 payroll disbursements were tested which accounted for $9,706 out of $220,348 of payroll program expenditures.

Repeat Finding from Prior Years: Yes, prior year finding 2017-001.

Recommendation: We recommend that management review the process over tracking hours worked with related program employees. In addition, we suggest reviewing procedures surrounding the indirect cost computation to ensure that the proper base is being used to calculate costs.

View of Responsible Officials: Management is in agreement, and the questioned costs of $13,652 for CFDA 93.583 were corrected in the August 2018 draw down request.

Finding 2018-002 **Administration For Children and Families**
CFDA 93.583, 90RW0049, 9/30/2016 – 9/29/2017 and 9/30/2017 – 9/29/2018
Refugee and Entrant Assistance Wilson/Fish Program

Eligibility and Case Management
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

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

Cause: Lack of conformity with designed controls.

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

***Questioned Costs*:** Questioned costs were $50.

Context: A nonstatistical sample of 21 participant case files out of 105 participant case files were selected for testing.

Repeat Finding from Prior Years: Yes, prior year finding 2017-002.

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

Views of Responsible Officials: Management is in agreement.

Finding 2018-003 **Administration For Children and Families**
CFDA 93.583, 90RW0049, 9/30/2016 – 9/29/2017 and 9/30/2017 – 9/29/2018
Refugee and Entrant Assistance Wilson/Fish Program

Reporting
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

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

Cause*:* The review of quarterly and trimester reports did not detect the errors.

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

Questioned Costs: None reported

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

Repeat Finding from Prior Years: No

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

Views of Responsible Officials: Management is in agreement.

Finding 2018-004 **Passed Through Lutheran Immigration and Refugee Service**
CFDA 19.510, SPRMCO17CA1010, 10/1/2016 – 9/30/2017
CFDA 19.510, SPRMCO18CA003, 10/1/2017 – 9/30/2018
U.S. Refugee Admissions Program

Cash Management and 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.

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

Cause: Lack of conformity with designed controls.

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

Questioned Costs: None reported

Context: The monthly reports were reviewed for four months in the Organization's fiscal year.

Repeat Finding from Prior Years: No

Recommendation: We recommend the procedures related to monitoring the cash management be reviewed with applicable program employees to ensure the grant draw requests are properly approved.

Views of Responsible Officials: Management is in agreement.

Finding 2018-005 **Passed Through South Dakota Department of Social Services**
CFDA 93.674, 18SC086601, 6/1/2017 – 5/31/2018
CFDA 93.674, 19SC086601, 6/1/2018 – 5/31/2019
Chaffee Foster Care Independence Program

Matching, Level of Effort and Earmarking
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.306 establishes that matching funds be verifiable from the non-Federal entity's records and are allowable under Subpart E – Cost Principles. Further Subpart E, 2 CFR 200.403(g) establishes that costs must be adequately documented.

Condition: The Organization did not meet the required match amount by $302 for the grant period ended May 31, 2018. In addition, we noted the following items that did not meet the above criteria:

a) One instance in which the in-kind donation was not reviewed and approved
b) Three instances in which the match amount did not agree to supporting documentation and was under allocated
c) One instance in which the specific expenditures could not be identified.

Cause: Lack of compliance with designed internal controls over in-kind donations and matching amounts.

Effect: Inadequate documentation of controls over this area of compliance could result in a reasonable possibility that the Organization would take credit for match amounts that were not actually received or at the incorrect value.

***Questioned Costs*:** Questioned costs were $528 for the program.

Context: A nonstatistical sample of 27 in-kind donations out of a total of 135 in-kind donations were selected for testing.

Repeat Finding from Prior Years: 2017-003

Recommendation: We recommend that procedures and program requirements regarding the receipt and documentation of in-kind donations be reviewed to ensure that they are properly designed, and adequate documentation is retained to ensure compliance with grant requirements.

Views of Responsible Officials: Management is in agreement.

Finding 2018-006 **Administration For Children and Families**
CFDA 93.566, 1501SDRSOC, 10/1/2014 - 9/30/2017
CFDA 93.566, 1601SDRSOC, 10/1/2015 - 9/30/2018
CFDA 93.566, 1701SDRSOC, 10/1/2016 - 9/30/2019
CFDA 93.566, 1801SDRSOC, 10/1/2017 - 9/30/2020
Refugee and Entrant Assistance-State Administered Programs

Suspension and Debarment
Significant Deficiency in Internal Control over Compliance

Criteria*:* Under 2 CFR 200.213, the Organization is required to have procedures in place to ensure they are not making subawards to parties that are suspended or debarred.

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

Cause: Lack of formally documented controls over review of suspension and debarment.

Effect: Inadequate controls over this area of compliance resulted in a finding and a reasonable possibility that the Organization would not be able to detect and correct noncompliance in timely manner.

Questioned Costs**:** None reported.

Context*:* Testing was performed on both of the Organization's subrecipients under the federal program.

Repeat Finding from Prior Years: No

Recommendation*:* We recommend that procedures and program requirements regarding the review of subrecipients for suspension and debarment be reviewed to ensure that they are properly designed, and adequate monitoring controls are implemented.

Views of Responsible Officials: Management is in agreement.

Finding 2018-007 **Administration For Children and Families**
CFDA 93.566, 1501SDRSOC, 10/1/2014 - 9/30/2017
CFDA 93.566, 1601SDRSOC, 10/1/2015 - 9/30/2018
CFDA 93.566, 1701SDRSOC, 10/1/2016 - 9/30/2019
CFDA 93.566, 1801SDRSOC, 10/1/2017 - 9/30/2020
Refugee and Entrant Assistance-State Administered Programs

Subrecipient Monitoring
Material Weakness in Internal Control over Compliance

Criteria: Under 2 CFR 200.331, the Organization is required to ensure that every subaward is clearly identified as a subaward and includes all the required elements and the Organization must perform an evaluation of each subrecipient for risk of noncompliance.

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

Cause: The Organization was not aware of the requirements under the Uniform Guidance.

Effect: Inadequate controls over this area of compliance resulted in a finding and a reasonable possibility that the Organization would not be able to detect and correct noncompliance in timely manner.

***Questioned Costs*:** None reported.

Context: Testing was performed on both of the Organization's subrecipients under the federal program.

Repeat Finding from Prior Years: No

Recommendation: We recommend that regulations regarding subrecipient monitoring be reviewed to ensure that they are properly designed, and adequate monitoring controls are implemented.

Views of Responsible Officials: Management is in agreement.

Finding 2018-008 **Administration For Children and Families**
CFDA 93.566, 1501SDRSOC, 10/1/2014 - 9/30/2017
CFDA 93.566, 1601SDRSOC, 10/1/2015 - 9/30/2018
CFDA 93.566, 1701SDRSOC, 10/1/2016 - 9/30/2019
CFDA 93.566, 1801SDRSOC, 10/1/2017 - 9/30/2020
Refugee and Entrant Assistance-State Administered Programs

Reporting
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the Organization 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. In addition, under 2 CFR 200.309, the organization may charge to the federal award only allowable costs incurred during the period of performance defined as the time during which the Organization may incur new obligations to carry out the work authorized under the federal award (2 CFR 200.77).

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

***Cause**:* Inconsistent guidance was provided to the Organization by the federal agency on the preparation of the quarterly financial reports, as it related to the definition of an obligation. In addition, the review of quarterly and trimester reports did not detect the errors.

***Effect**:* Inadequate controls over these areas of compliance resulted in a reasonable possibility that the Organization would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported

***Context**:* The quarterly reports for open award years were reviewed for two quarters in the Organization's fiscal year.

Repeat Finding from Prior Years: No

***Recommendation**:* We recommend management formalize their understanding of unobligated grant balances and remain consistent in reporting methodologies going forward. In addition, we recommend the procedures related to reporting be reviewed with applicable program employees to ensure the reporting is properly supported and the documentation is retained.

Views of Responsible Officials: Management is in agreement.

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Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
June 30, 2018

Prepared by Management of

Lutheran Social Services of South Dakota

Financial Statement Findings

Finding 2017-A

Initial Fiscal Year Finding Occurred: 2014

Finding Summary: Eide Bailly provided assistance compiling certain audit adjustments. Other adjustments were proposed by LSS after being identified by the auditors, and may not have been identified as a result of LSS procedures. This could have resulted in misstatements of the consolidated financial statements. In addition, an error in recording the beneficial interest in charitable trusts held by others was detected, which resulted in a prior year restatement.

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

Finding 2017-B

Initial Fiscal Year Finding Occurred: 2017

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

Status: Procedures have been strengthened to address segregation of duties when there is turnover or leave within the accounting department. Due to turnover in the accounting department, those procedures are still in the process of being fully implemented.

Single Audit Findings

Finding 2017-001

Initial Fiscal Year Finding Occurred: 2015

Finding Summary:

a. Occupancy allocations did not have a formal approval
b. One federal time tracker did not have the signature of the supervisor
c. Indirect costs were charged to a grant based upon one-twelfth of the budgeted indirect costs, rather than as a percentage of the actual monthly direct costs
d. A portion of direct costs were not included in the base for calculation of the monthly indirect cost in three instances

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

Finding 2017-002

Initial Fiscal Year Finding Occurred: 2015

Finding Summary: One file did not have the determination form properly approved. There were also three instances in which documentation was not included in the file indicating receipt by the program participant.

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

Finding 2017-003

Initial Fiscal Year Finding Occurred: 2017

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

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

Finding 2017-004

Initial Fiscal Year Finding Occurred: 2017

Finding Summary: The October bill submitted for the grant exceeded the allowable reimbursement for operating expenses. The overcharge was not paid by the grantor, and was not identified by LSS for three months.

Status: Ongoing. Accounting staff are inputting accurate budget numbers for monthly billings, and budget to actual is being reviewed on a monthly basis.

Findings – Financial Statement

Finding 2018-A Preparation of Financial Statements and Restatement

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

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Management will review the year-end journal entry process to eliminate the need for similar audit entries in future periods. LSS will also evaluate transactions for exchange versus contribution transactions.

Anticipated Completion Date: November 1, 2018

Finding 2018-B Segregation of Duties

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

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Management will review transactions and approvals that could be subject to problems caused by not having secondary review, and will add approvals where possible. In some instances it might be necessary to involve staff outside of the accounting department, where appropriate.

Anticipated Completion Date: November 15, 2018

Findings – Federal Awards

Finding 2018-001 Allowable Costs and Allowable Activities

Administration For Children and Families
CFDA 93.583
Refugee and Entrant Assistance_Wilson/Fish Program

Passed Through South Dakota Department of Social Services
CFDA 93.674
Chafee Foster Care Independence Program

Administration For Children and Families
CFDA 93.566
Refugee and Entrant Assistance-State Administered Programs

Finding Summary:

a. In three instances the federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked (CFDA 93.583 and 93.566)

b. Amounts paid directly to refugees were included in the direct cost base for calculation of the monthly indirect cost (CFDA 93.583)
c. Indirect costs calculation included an error in four months (CFDA 93.674)
d. In one month, the wrong allocation amount was used for allocated rent (CFDA 93.674)

Responsible Individuals: Nathan Beyer, Amy Cravaack, Tim Jurgens

Corrective Action Plan:

a. Staff will be reminded of the need to accurately reflect their time paid on their time tracker, including separating out non-worked time
b. All staff have been reminded of which costs are subject to being included in the direct cost base, and which costs are excluded. An additional review of monthly billings has also been added
c. An additional level of review has been added to the monthly billing process
d. The monthly allocation process is being reviewed to reduce or eliminate these errors

Anticipated Completion Date: November 15, 2018

Finding 2018-002 Eligibility and Case Management

Administration For Children and Families
CFDA 93.583
Refugee and Entrant Assistance_Wilson/Fish Program

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

Responsible Individuals: Tim Jurgens

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

Anticipated Completion Date: November 15, 2018

Finding 2018-003 Reporting

Administration For Children and Families
CFDA 93.583
Refugee and Entrant Assistance Wilson/Fish Program

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

Responsible Individuals: Nathan Beyer, Amy Cravaack, Tim Jurgens

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

Anticipated Completion Date: November 15, 2018

Finding 2018-004 Cash Management and Reporting

Passed Through Lutheran Immigration and Refugee Service
CFDA 19.510
U.S. Refugee Admissions Program

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

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The billing review process has been updated to include a second review.

Anticipated Completion Date: November 15, 2018

Finding 2018-005 Matching, Level of Effort and Earmarking

Passed Through South Dakota Department of Social Services
CFDA 93.674
Chafee Foster Care Independence Program

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

Responsible Individuals: Nathan Beyer & Roslyn Stevenson

Corrective Action Plan: The monthly process for reporting match is being updated to include a secondary review of all match and supporting documentation. Staff will also be trained on what items are appropriate to use as match.

Anticipated Completion Date: November 1, 2018

Finding 2018-006 Suspension and Debarment

Administration For Children and Families
CFDA 93.566
Refugee and Entrant Assistance-State Administered Programs

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

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: An internal control process will be added to verify the process is being completed.

Anticipated Completion Date: November 30, 2018

Finding 2018-007 Subrecipient Monitoring

Administration For Children and Families
CFDA 93.566
Refugee and Entrant Assistance-State Administered Programs

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

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: LSS will develop the appropriate controls to be in compliance with this requirement.

Anticipated Completion Date: November 30, 2018

Finding 2018-008 Reporting

Administration For Children and Families
CFDA 93.566
Refugee and Entrant Assistance-State Administered Programs

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

Responsible Individuals: Nathan Beyer, Amy Cravaack, Tim Jurgens

Corrective Action Plan: The review process has been updated to make sure accurate numbers are being included on the reports. In addition, LSS contacted the federal awarding agency to obtain an opinion if the reports were completed accurately according to our understanding of the obligation guidance. LSS was not required to make any revisions to the past quarterly reports or to the methodology for completing them moving forward.

Anticipated Completion Date: November 30, 2018