



Financial Statements
June 30, 2021 and 2020

Children's Home Foundation

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Home Foundation (Foundation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Foundation as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Sioux Falls, South Dakota
October 27, 2021

Children's Home Foundation
Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 3,072,427	\$ 2,994,836
Interest receivable	103,561	96,151
Contributions and bequests receivable, net	397,584	4,746,760
Prepaid expenses	1,940	1,349
Investments	163,922,461	120,443,218
Beneficial interest in trusts	2,376,230	1,979,762
Beneficial interest in assets held by community foundations	4,128,713	3,322,927
Cash surrender value of life insurance	1,082,482	1,046,724
Equipment, net	1,099	2,145
	\$ 175,086,497	\$ 134,633,872
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 2,282	\$ 12,802
Accrued expenses	114,946	184,075
Annuity obligations	12,319	12,306
Due to Children's Home Society	4,970,954	70,280
	5,100,501	279,463
Net Assets		
Without donor restrictions		
Undesignated	6,721,681	2,961,154
Board designated	25,054,274	18,190,921
With donor restrictions	138,210,041	113,202,334
	169,985,996	134,354,409
	\$ 175,086,497	\$ 134,633,872

Children's Home Foundation
Statement of Activities
Year Ended June 30, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Gains			
Contributions and bequests	\$ 2,539,066	\$ 2,403,529	\$ 4,942,595
Investment income	284,604	1,391,434	1,676,038
Net gain on investments carried at fair value	5,399,190	26,252,881	31,652,071
Distributions from and change in value of beneficial interests in assets held by others	10,035	795,751	805,786
Interest on cash and cash equivalents	3,072	-	3,072
Increase in cash surrender value of life insurance	35,853	-	35,853
Change in value of annuity obligations	(1,642)	-	(1,642)
Change in value of trusts	-	396,468	396,468
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,941,215	(1,941,215)	-
Net assets released from restrictions - other	4,291,141	(4,291,141)	-
Total revenue and gains	<u>14,502,534</u>	<u>25,007,707</u>	<u>39,510,241</u>
Expenses			
Program services expense	2,694,418	-	2,694,418
Supporting services expense			
Fundraising and development	1,148,569	-	1,148,569
General and administrative	35,667	-	35,667
Total expenses	<u>3,878,654</u>	<u>-</u>	<u>3,878,654</u>
Change in Net Assets	10,623,880	25,007,707	35,631,587
Net Assets, Beginning of Year	<u>21,152,075</u>	<u>113,202,334</u>	<u>134,354,409</u>
Net Assets, End of Year	<u>\$ 31,775,955</u>	<u>\$ 138,210,041</u>	<u>\$ 169,985,996</u>

Children's Home Foundation
Statement of Activities
Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Gains			
Contributions and bequests	\$ 2,483,256	\$ 5,338,818	\$ 7,822,074
Investment income	366,264	2,937,068	3,303,332
Net loss on investments carried at fair value	(469,346)	(3,094,399)	(3,563,745)
Distributions from and change in value of beneficial interests in assets held by others	1,017	(38,280)	(37,263)
Interest on cash and cash equivalents	26,704	-	26,704
Increase in cash surrender value of life insurance	37,779	-	37,779
Change in value of annuity obligations	(1,751)	-	(1,751)
Change in value of trusts	-	(68,584)	(68,584)
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,825,515	(1,825,515)	-
Net assets released from restrictions - other	150,368	(150,368)	-
Total revenue and gains	<u>4,419,806</u>	<u>3,098,740</u>	<u>7,518,546</u>
Expenses			
Program services expense	1,445,275	-	1,445,275
Supporting services expense			
Fundraising and development	1,462,534	-	1,462,534
General and administrative	57,584	-	57,584
Total expenses	<u>2,965,393</u>	<u>-</u>	<u>2,965,393</u>
Change in Net Assets	1,454,413	3,098,740	4,553,153
Net Assets, Beginning of Year	<u>19,697,662</u>	<u>110,103,594</u>	<u>129,801,256</u>
Net Assets, End of Year	<u>\$ 21,152,075</u>	<u>\$ 113,202,334</u>	<u>\$ 134,354,409</u>

Children's Home Foundation
Statement of Functional Expenses
Year Ended June 30, 2021

	2021			
	Program Expenses	Fundraising and Development	General and Administrative	Total
Salaries	\$ -	\$ 492,359	\$ 12,793	\$ 505,152
Payroll taxes and benefits	-	170,240	3,178	173,418
Training and conferences	-	5,939	-	5,939
Professional services and fees	-	-	14,100	14,100
Insurance	-	2,011	-	2,011
Travel	-	2,366	-	2,366
Occupancy	-	28,269	-	28,269
Goods and supplies	-	398,360	5,596	403,956
Printing and publications	-	34,853	-	34,853
Equipment maintenance	-	11,778	-	11,778
Contributions to outside agencies	23,523	-	-	23,523
Contributions to Children's Home Society	2,670,895	-	-	2,670,895
Depreciation	-	1,046	-	1,046
Other	-	1,348	-	1,348
	\$ 2,694,418	\$ 1,148,569	\$ 35,667	\$ 3,878,654

Children's Home Foundation
Statement of Functional Expenses
Year Ended June 30, 2020

	2020			
	Program Expenses	Fundraising and Development	General and Administrative	Total
Salaries	\$ -	\$ 444,276	\$ 15,805	\$ 460,081
Payroll taxes and benefits	-	144,503	5,760	150,263
Employment costs	-	398	-	398
Training and conferences	-	567	-	567
Professional services and fees	-	631	15,863	16,494
Insurance	-	7,335	-	7,335
Travel	-	3,189	897	4,086
Occupancy	-	28,223	-	28,223
Goods and supplies	-	810,648	9,485	820,133
Printing and publications	-	8,521	9,774	18,295
Equipment maintenance	-	11,255	-	11,255
Contributions to outside agencies	23,162	-	-	23,162
Contributions to Children's Home Society	1,422,113	-	-	1,422,113
Depreciation	-	1,640	-	1,640
Other	-	1,348	-	1,348
	<u>\$ 1,445,275</u>	<u>\$ 1,462,534</u>	<u>\$ 57,584</u>	<u>\$ 2,965,393</u>

Children's Home Foundation
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 35,631,587	\$ 4,553,153
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,046	1,640
Net (gain) loss on investments carried at fair value	(31,652,071)	3,563,745
Change in value of beneficial interest in assets held by others	(805,786)	37,263
Change in discount and allowance on contributions receivable	(405,083)	405,764
Contributions restricted to endowment including noncash gifts	(773,207)	(599,765)
Contributions restricted to building project	(253,150)	-
Increase in cash surrender value of life insurance	(35,758)	(37,685)
Change in beneficial interest in trusts	(396,468)	68,584
Change in assets and liabilities		
Interest receivable	(7,410)	79,441
Contributions and bequests receivable	4,903,235	(4,997,275)
Prepaid expenses	(591)	(34)
Accounts payable	(10,520)	2,286
Accrued expenses	(69,129)	19,280
Annuity obligations	13	121
Due to Children's Home Society	4,900,674	51,665
Net Cash from Operating Activities	11,027,382	3,148,183
Investing Activities		
Proceeds from sale and maturities of investments	106,731,490	23,273,077
Purchase of investments	(118,489,307)	(26,830,085)
Contribution to community foundation, net of distributions received	-	(2,005)
Net Cash used for Investing Activities	(11,757,817)	(3,559,013)
Financing Activities		
Proceeds from contributions restricted for endowment	757,082	526,086
Proceeds from contributions restricted for investment in land, buildings and equipment	50,944	4,260
Net Cash from Financing Activities	808,026	530,346
Net Change in Cash and Cash Equivalents	77,591	119,516
Beginning Cash and Cash Equivalents	2,994,836	2,875,320
Ending Cash and Cash Equivalents	\$ 3,072,427	\$ 2,994,836
Supplemental Information		
Noncash investing and financing activities		
Donation of securities	\$ 69,355	\$ 77,621

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

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

Cash and Cash Equivalents

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

Contributions and Bequests Receivable

Unconditional contributions and bequests expected to be collected within one year are recorded at net realizable value. Unconditional contributions and bequests expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions and bequests are written off when deemed uncollectable. At June 30, 2021 and 2020, the allowance was \$388,000.

The Foundation and Society are considered financially interrelated organizations because the Foundation exists to raise, hold, and invest assets for the Society. Accordingly, assets received from donors (including contributions receivable) by the Foundation for the benefit of the Society are recognized as contributions received by the Foundation. Assets transferred from the Society to the Foundation are presented as a separate line item in the statements of activities, unless the Society has specified itself as the beneficiary of the assets and the Society expects repayment of the transferred assets, in which case a liability would be recognized by the Foundation.

Equipment

Equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over an estimated useful life of five years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the 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 carrying value of equipment is reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2021 and 2020.

Investments

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

Beneficial Interest in Trusts

The Foundation has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to the Foundation; however, the Foundation will never receive the assets of the trusts. At the date the Foundation receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trust is reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. At June 30, 2021 and 2020, the trust was \$400,197 and \$320,173, respectively.

The Foundation has also been named as an irrevocable beneficiary of a charitable remainder trust held and administered by an independent trustee. Under this trust agreement, the Foundation receives an annual distribution from the trust for a period of twenty years. At the end of the twenty-year period, the Foundation will receive a proportionate share of the trust's remaining value. At the date the Foundation received notice of the beneficial interest, a contribution with donor restrictions was recorded in the statements of activities, and a beneficial interest in trust was recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trust is reported at the fair value of the trust's assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. At June 30, 2021 and 2020, the trust was \$1,976,033 and \$1,659,589, respectively.

Beneficial Interest in Assets Held by Community Foundations

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

Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Charitable Gift Annuities

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 discounts rate designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for certain board-designated reserves (Note 8) and a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and goods and supplies, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Foundation is organized as a South Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Foundation 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.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entity 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 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 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.

Financial Instruments and Credit Risk

The Foundation 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 Foundation has not experienced losses in any of these accounts. Credit risk associated with contributions and bequests receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals and organizations supportive of the Foundation'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 Foundation.

Fund Raising Costs

Fund raising costs are expensed as incurred.

Reclassifications

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

Subsequent Events

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

Note 2 - Liquidity and Availability

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

	2021	2020
Cash and cash equivalents	\$ 2,321,647	\$ 2,238,659
Contributions and bequests receivable	118,060	1,001,125
Distributions from beneficial interests in trusts	133,350	126,117
Distributions from beneficial interests in assets held by community foundations	122,872	119,213
Spending-rate distributions and appropriations	17,057,098	4,279,968
	<u>\$ 19,753,027</u>	<u>\$ 7,765,082</u>

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

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

Board-designated endowments are considered available to the extent of the approved annual spending rate of 4 to 5 percent. Although the Foundation does not intend to spend from these board designated endowment amounts (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary. Balances of the board designated endowments were \$17,216,504 and \$13,522,754 as of June 30, 2021 and 2020, respectively. In addition to board designated endowments, the board has designated certain investments which were \$7,572,993 and \$4,360,707 as of June 30, 2021 and 2020, respectively.

As part of a liquidity management plan, cash in excess of daily requirements may be invested in short-term investments, certificates of deposit, or money market funds. The Board annually designates a portion of its budget to certain cash reserves. Cash reserves were \$264,777 and \$307,461 as of June 30, 2021 and 2020, respectively, and are further described in Note 8.

Note 3 - Contributions and Bequests Receivable

The following summarizes contributions and bequests receivable at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment	\$ 493,839	\$ 547,069
Children's Inn	313,096	5,014,125
Total contributions and bequests receivable	<u>806,935</u>	<u>5,561,194</u>
Less		
Discount to net present value at 3.25% to 5%	(21,351)	(426,434)
Allowance for uncollectible contributions	<u>(388,000)</u>	<u>(388,000)</u>
Net contributions and bequests receivable	<u>\$ 397,584</u>	<u>\$ 4,746,760</u>

At June 30, 2021 and 2020, one donor accounted for approximately 25% and 90%, respectively, of total contributions and bequests receivable.

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

<u>Due by June 30,</u>	
2022	\$ 194,499
2023	70,330
2024	69,360
2025	67,746
2026	30,000
Thereafter	<u>375,000</u>
	<u>\$ 806,935</u>

Note 4 - Investments

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

	2021	2020
Without donor restrictions		
Cash equivalents and money market funds	\$ 3,475,223	\$ 2,450,658
Certificates of deposit	1,505,858	62,036
Corporate debt securities	11,097	290,153
Mutual funds - equity securities	20,659,133	11,820,570
Mutual funds - debt securities	8,114,228	3,260,043
	33,765,539	17,883,460
With donor restrictions		
Cash equivalents and money market funds	11,803,429	8,788,719
Certificates of deposit	3,337,292	9,450,645
State and municipal government obligations	145,052	293,877
Corporate debt securities	1,978,389	1,743,378
Mutual funds - equity securities	79,489,323	65,197,908
Mutual funds - debt securities	33,403,437	17,072,626
Preferred stock	-	12,605
	130,156,922	102,559,758
	\$ 163,922,461	\$ 120,443,218

Investment income from investments is recorded net of related investment fees of \$337,537 and \$296,068 for the years ended June 30, 2021 and 2020, respectively.

Note 5 - Cash Surrender Value of Life Insurance

The Foundation is the beneficiary of life insurance policies on the lives of certain donors. Premiums paid by donors are recorded as contributions received. Premiums paid by the Foundation are recorded as life insurance expense. The face values of the policies were approximately \$2,224,000 and \$2,216,000 at June 30, 2021 and 2020, respectively. The policies had cash values of \$1,082,482 and \$1,046,724 at June 30, 2021 and 2020, respectively. Investments in cash surrender value of life insurance are carried at their contract amount.

Note 6 - Fair Value of Assets and Liabilities

Certain assets and liabilities are reported at fair value in the 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 Foundation 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 Foundation develops inputs using the best information available in the circumstances.

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

	<u>2021</u>	<u>2020</u>
Assets		
Certificates of deposit	\$ 4,843,150	\$ 9,512,681
State and municipal government obligations	145,052	293,877
Corporate debt securities	1,989,486	2,033,531
Mutual funds - equity securities	100,148,456	77,018,478
Mutual funds - debt securities	41,517,665	20,332,669
Preferred stock	-	12,605
Beneficial interest in trusts	2,376,230	1,979,762
Beneficial interest in assets held by community foundations	4,128,713	3,322,927
	<u>\$ 155,148,752</u>	<u>\$ 114,506,530</u>
Liabilities		
Annuity obligations	<u>\$ 12,319</u>	<u>\$ 12,306</u>

Children's Home Foundation
Notes to Financial Statements
June 30, 2021 and 2020

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Certificates of deposit	\$ -	\$ 4,843,150	\$ -	\$ 4,843,150
State and municipal government obligations	-	145,052	-	145,052
Corporate debt securities	-	1,989,486	-	1,989,486
Mutual funds - equity securities	100,148,456	-	-	100,148,456
Mutual funds - debt securities	41,517,665	-	-	41,517,665
Total investments valued at fair value	<u>141,666,121</u>	<u>6,977,688</u>	<u>-</u>	<u>148,643,809</u>
Beneficial interest in trusts	-	-	2,376,230	2,376,230
Beneficial interest in assets held by community foundations	-	-	4,128,713	4,128,713
	<u>\$ 141,666,121</u>	<u>\$ 6,977,688</u>	<u>\$ 6,504,943</u>	<u>\$ 155,148,752</u>
Liabilities				
Annuity obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,319</u>	<u>\$ 12,319</u>

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Certificates of deposit	\$ -	\$ 9,512,681	\$ -	\$ 9,512,681
State and municipal government obligations	-	293,877	-	293,877
Corporate debt securities	-	2,033,531	-	2,033,531
Mutual funds - equity securities	77,018,478	-	-	77,018,478
Mutual funds - debt securities	20,332,669	-	-	20,332,669
Preferred stock	12,605	-	-	12,605
Total investments valued at fair value	<u>97,363,752</u>	<u>11,840,089</u>	<u>-</u>	<u>109,203,841</u>
Beneficial interest in trusts	-	-	1,979,762	1,979,762
Beneficial interest in assets held by community foundations	-	-	3,322,927	3,322,927
	<u>\$ 97,363,752</u>	<u>\$ 11,840,089</u>	<u>\$ 5,302,689</u>	<u>\$ 114,506,530</u>
Liabilities				
Annuity obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,306</u>	<u>\$ 12,306</u>

Children's Home Foundation

Notes to Financial Statements

June 30, 2021 and 2020

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

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

	Beneficial Interest in	
	Community Foundations	Trusts
Balance, June 30, 2019	\$ 3,358,185	\$ 2,048,346
Total gains or losses		
Included in change in net assets, net of fees	81,555	(68,584)
Purchases and sales		
Purchases (contributions to the CF)	2,005	-
Sales (distributions from the CF)	(118,818)	-
Balance, June 30, 2020	3,322,927	1,979,762
Total gains or losses		
Included in change in net assets, net of fees	\$ 928,645	396,468
Purchases and sales		
Sales (distributions from the CF)	(122,859)	-
Balance, June 30, 2021	\$ 4,128,713	\$ 2,376,230

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

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

Note 7 - Net Assets With Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose or passage of time		
Various Children's Home Society programs	\$ 2,778,919	\$ 1,483,423
Child's Voice and Child Advocacy Center	8,826	4,023
Front Line staff salaries and benefits	-	4,149,815
Children's Inn programs	7,599,638	6,658,088
Building maintenance	509	324
Black Hills programs	2,640,547	1,406,523
Creative arts	1,519	1,142
Advocacy and prevention	527,323	536,090
Children's Inn facility	5,929,539	11,346,985
Other	8,896	4,697
	19,495,716	25,591,110
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 12)	32,455,010	7,705,853
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Various Children's Home Society programs	67,894,029	27,717,909
Child's Voice and Child Advocacy Center	3,370,540	3,095,203
Front Line staff salaries and benefits	-	40,000,000
Children's Inn programs	972,489	970,294
Building maintenance	293,647	293,647
Black Hills programs	412,433	412,433
Creative Arts	1,357,221	1,333,936
Mark Amundson Memorial	229,008	227,758
Advocacy and prevention	1,788,488	1,778,488
Adoption	411,765	367,522
Children's Inn new facility	5,844,102	-
Contributions and bequests receivable, net - permanently restricted to general endowment	64,322	166,959
	82,638,044	76,364,149
Not subject to spending policy or appropriation		
Beneficial interest in assets held by community foundation	3,221,074	3,221,049
Beneficial interests in perpetual trusts	400,197	320,173
	3,621,271	3,541,222
	\$ 138,210,041	\$ 113,202,334

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

	2021	2020
Satisfaction of purpose and/or time restrictions		
Various Children's Home Society programs	\$ 23,645	\$ 32,424
Donor redirection of funds - front Line staff salaries and benefits	4,126,846	-
Children's Inn programs	73,440	70,823
Black Hills programs	54,127	46,851
Advocacy and prevention	13,083	270
	4,291,141	150,368
 Restricted-purpose spending rate distributions and appropriations (Note 12)	 1,941,215	 1,825,515
	\$ 6,232,356	\$ 1,975,883

Note 8 - Board Designated Net Assets

Board designated net assets are summarized as follows:

	2021	2020
Cash		
Self-funded insurance reserve	\$ 264,777	\$ 307,461
Investments		
Operating reserve	7,506,959	4,208,851
Deferred compensation	66,034	151,856
Endowments	17,216,504	13,522,753
	\$ 25,054,274	\$ 18,190,921

Note 9 - Employee Benefit Plans

The Foundation's employees participate in a defined contribution 401(k) retirement plan established by the Society. The plan covers all eligible employees who have attained the age of 21 and have one year of service. The plan allows employees the option to make elective deferral contributions and the Society the ability to make discretionary matching contributions based upon the participants' deferrals and/or discretionary profit-sharing contributions which are allocated to all eligible participants based upon their eligible compensation. Contributions to this plan by the Foundation were 8% or approximately \$39,500 and \$36,800 for the years ended June 30, 2021 and 2020, respectively.

Note 10 - Donated Professional Services and Materials

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

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2021</u>				
Advertising and printing	\$ -	\$ -	\$ 171,440	\$ 171,440
Events	4,001	-	119,283	123,284
Professional services	4,915	15,000	-	19,915
Goods and supplies	315,981	-	-	315,981
	<u>\$ 324,897</u>	<u>\$ 15,000</u>	<u>\$ 290,723</u>	630,620
Less amounts passed through to Society				<u>(352,583)</u>
				<u>\$ 278,037</u>
<u>June 30, 2020</u>				
Advertising and printing	\$ -	\$ -	\$ 372,923	\$ 372,923
Events	-	-	226,848	226,848
Professional services	4,288	18,500	-	22,788
Goods and supplies	180,553	-	-	180,553
	<u>\$ 184,841</u>	<u>\$ 18,500</u>	<u>\$ 599,771</u>	803,112
Less amounts passed through to Society				<u>(203,697)</u>
				<u>\$ 599,415</u>

Note 11 - Related Party Transactions

Transactions with the Society not disclosed elsewhere in the financial statements consist of the following:

The board members of the Foundation are appointed by the board members of the Society. The Society pays certain payroll and other administrative expenses for the Foundation, which are then reimbursed by the Foundation. These amounts totaled approximately \$804,000 and \$714,000 for the years ended June 30, 2021 and 2020, respectively.

The Foundation rents office space from the Society on a month-to-month basis. Total rent paid was \$25,000 during each of the years ended June 30, 2021 and 2020.

Contributions receivables at June 30, 2021 and 2020, include gifts from several board members and employees of the Foundation and Society with a gross recorded value of \$499,000 and \$40,000, respectively, which do not include reductions for allowance and discounts.

Note 12 - Endowment Funds

The Foundation's endowment funds consist of various donor-restricted endowment funds and funds designated as endowment by the Foundation's Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (historic dollar value). In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment fund; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investment; (6) other resources of the Foundation; and (7) the investment policies of the Foundation.

Children's Home Foundation

Notes to Financial Statements

June 30, 2021 and 2020

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 17,216,504	\$ -	\$ 17,216,504
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Various Children's Home Society programs	-	67,958,351	67,958,351
Child's Voice and Child Advocacy Center	-	3,370,540	3,370,540
Children's Inn programs	-	972,489	972,489
Building maintenance	-	293,647	293,647
Black Hills programs	-	412,433	412,433
Creative Arts	-	1,357,221	1,357,221
Mark Amundson Memorial	-	229,008	229,008
Advocacy and prevention	-	1,788,488	1,788,488
Adoption	-	411,765	411,765
Children's Inn new facility	-	5,844,102	5,844,102
Accumulated investment gains			
Various Children's Home Society programs	-	28,350,606	28,350,606
Child's Voice and Child Advocacy Center	-	155,847	155,847
Children's Inn programs	-	991,538	991,538
Building maintenance	-	642,181	642,181
Black Hills programs	-	281,757	281,757
Creative Arts	-	817,737	817,737
Mark Amundson Memorial	-	93,049	93,049
Advocacy and prevention	-	774,787	774,787
Adoption	-	139,178	139,178
Children's Inn new facility	-	208,330	208,330
	<u>\$ 17,216,504</u>	<u>\$ 115,093,054</u>	<u>\$ 132,309,558</u>

Children's Home Foundation

Notes to Financial Statements

June 30, 2021 and 2020

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 13,522,754	\$ -	\$ 13,522,754
Donor restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Various Children's Home Society programs	-	27,884,868	27,884,868
Child's Voice and Child Advocacy Center	-	3,095,203	3,095,203
Front Line staff salaries and benefits	-	40,000,000	40,000,000
Children's Inn programs	-	970,294	970,294
Building maintenance	-	293,647	293,647
Black Hills programs	-	412,433	412,433
Creative Arts	-	1,333,936	1,333,936
Mark Amundson Memorial	-	227,758	227,758
Advocacy and prevention	-	1,778,488	1,778,488
Adoption	-	367,522	367,522
Accumulated investment gains			
Various Children's Home Society programs	-	3,696,273	3,696,273
Child's Voice and Child Advocacy Center	-	382,113	382,113
Front Line staff salaries and benefits	-	1,795,112	1,795,112
Children's Inn programs	-	607,943	607,943
Building maintenance	-	416,434	416,434
Black Hills programs	-	135,296	135,296
Creative Arts	-	376,157	376,157
Mark Amundson Memorial	-	26,814	26,814
Advocacy and prevention	-	246,153	246,153
Adoption	-	23,558	23,558
	<u>\$ 13,522,754</u>	<u>\$ 84,070,002</u>	<u>\$ 97,592,756</u>

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration, (i.e., underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2021 and 2020, there were no deficiencies of this nature reported in net assets with donor restrictions.

Investment Spending Policies

The Foundation has adopted investment and spending policies for its endowment fund that attempt to provide the Foundation a predictable funding stream for its programs while protecting the purchasing power of the endowment funds. The Foundation, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 5%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Foundation expects to maintain appropriate diversification among equity and fixed income allocations. The purpose is to moderate the overall investment risk of the endowment fund.

The Board of Directors of the Foundation may appropriate for expenditure or accumulate so much of the endowment fund as the Foundation determines is prudent for the uses, benefits, purpose, and duration for which the endowment fund is established. The amount appropriated, the spending policy, is a Board approved percentage applied to the average fair value of the endowment fund assets during the prior sixteen quarters. In cases where the fair value of the endowment fund assets fall below the original value of the gifts donated to the permanent endowment, appropriation of gifts will not be made if such appropriation would reduce any gift below its historic-dollar value threshold. However, appropriations may be made from board designated quasi-endowment funds in an amount equivalent to an appropriation that would otherwise be allowable, but for the below historic-dollar-value condition. The Board approved spending percentage was 5% for the years ended June 30, 2021 and 2020.

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

<u>June 30, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 13,522,754	\$ 84,070,002	\$ 97,592,756
Investment return, net	4,263,647	26,530,985	30,794,632
Contributions and bequests	98,672	6,433,282	6,531,954
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,941,215)	(1,941,215)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	<u>(668,569)</u>	<u>-</u>	<u>(668,569)</u>
Endowment net assets, end of year	<u>\$ 17,216,504</u>	<u>\$ 115,093,054</u>	<u>\$ 132,309,558</u>

Children's Home Foundation
Notes to Financial Statements
June 30, 2021 and 2020

<u>June 30, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$14,204,042	\$85,676,180	\$ 99,880,222
Investment return, net	(81,916)	(392,593)	(474,509)
Contributions and bequests	54,732	611,930	666,662
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,825,515)	(1,825,515)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(654,104)	-	(654,104)
Endowment net assets, end of year	<u>\$ 13,522,754</u>	<u>\$ 84,070,002</u>	<u>\$ 97,592,756</u>

Note 13 - Contingencies

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