



Consolidated Financial Statements
June 30, 2022 and 2021

Children's Home Society of South Dakota

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Children's Home Society of South Dakota and Children's Home Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
December 30, 2022

Children's Home Society of South Dakota
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents		
Undesignated	\$ 8,470,721	\$ 6,487,497
Designated	5,318,614	5,867,017
Restricted	810,733	707,224
Total cash and cash equivalents	14,600,068	13,061,738
Accounts receivable	1,327,768	2,202,309
Contributions, grants and contracts receivable, net	3,771,601	1,282,559
Prepaid expenses	501,197	370,292
Investments	139,663,078	167,604,793
Beneficial interest in trusts	2,916,520	3,585,853
Beneficial interest in assets held by community foundations	3,453,814	4,128,713
Cash surrender value of life insurance	1,115,684	1,082,482
Land, buildings and equipment, net	20,571,479	13,043,920
	\$ 187,921,209	\$ 206,362,659
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,613,428	\$ 246,866
Accrued expenses	2,342,855	2,283,661
Annuity obligations	12,217	12,319
Total liabilities	3,968,500	2,542,846
Net Assets		
Without donor restrictions		
Undesignated	26,799,284	29,265,401
Board designated	31,714,075	33,064,947
With donor restrictions	125,439,350	141,489,465
Total net assets	183,952,709	203,819,813
	\$ 187,921,209	\$ 206,362,659

Children's Home Society of South Dakota
Consolidated Statements of Activities
Year Ended June 30, 2022

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Childcare	\$ 9,482,485	\$ -	\$ 9,482,485
Tuition	3,418,450	-	3,418,450
Contributions and bequests	2,658,018	6,548,592	9,206,610
Support from government agencies	4,667,779	-	4,667,779
Children's Inn contributions	-	197,856	197,856
United Way support	-	873,300	873,300
In-kind contributions	1,759,210	-	1,759,210
Increase in cash surrender value of life insurance	33,202	-	33,202
Distributions from perpetual trusts	57,652	-	57,652
Investment return, net	(4,889,903)	(19,001,558)	(23,891,461)
Distributions from and change in value of beneficial interests in assets held by others	(10,013)	(664,886)	(674,899)
Change in value of beneficial interest in trusts	-	(669,333)	(669,333)
Change in value of annuity obligations	(1,528)	-	(1,528)
Gain on asset disposal	205,824	-	205,824
Other	325,561	-	325,561
Net asset released from restriction pursuant to endowment spending-rate distribution formula	2,078,878	(2,078,878)	-
Net assets released from restrictions - other	1,255,208	(1,255,208)	-
Total revenue, gains and other support	<u>21,040,823</u>	<u>(16,050,115)</u>	<u>4,990,708</u>
Expenses			
Program services expense			
Residential and education	14,380,731	-	14,380,731
Community based services	5,399,459	-	5,399,459
Total program services expense	<u>19,780,190</u>	<u>-</u>	<u>19,780,190</u>
Supporting services expense			
General and administrative	3,145,580	-	3,145,580
Fundraising and development	1,932,042	-	1,932,042
Total supporting services expense	<u>5,077,622</u>	<u>-</u>	<u>5,077,622</u>
Total expenses	<u>24,857,812</u>	<u>-</u>	<u>24,857,812</u>
Change in Net Assets	(3,816,989)	(16,050,115)	(19,867,104)
Net Assets, Beginning of Year	<u>62,330,348</u>	<u>141,489,465</u>	<u>203,819,813</u>
Net Assets, End of Year	<u>\$ 58,513,359</u>	<u>\$ 125,439,350</u>	<u>\$ 183,952,709</u>

Children's Home Society of South Dakota
Consolidated Statements of Activities
Year Ended June 30, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Childcare	\$ 9,324,134	\$ -	\$ 9,324,134
Tuition	3,046,748	-	3,046,748
Contributions and bequests	2,032,931	2,747,337	4,780,268
Contributions - Paycheck Protection Program	2,895,687	-	2,895,687
Support from government agencies	5,781,393	-	5,781,393
Children's Inn contributions	-	518,895	518,895
United Way support	-	873,100	873,100
In-kind contributions	1,043,563	-	1,043,563
Increase in cash surrender value of life insurance	35,853	-	35,853
Distributions from perpetual trusts	36,234	-	36,234
Investment return, net	6,300,072	27,935,255	34,235,327
Distributions from and change in value of beneficial interests in assets held by others	10,035	795,751	805,786
Change in value of beneficial interest in trusts	-	609,030	609,030
Change in value of annuity obligations	(1,642)	-	(1,642)
Other state support	-	150,000	150,000
Gain on asset disposal	15,155	-	-
Other	487,592	-	487,592
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,953,295	(1,953,295)	-
Net assets released from restrictions - other	5,847,286	(5,847,286)	-
Total revenue, gains and other support	<u>38,808,336</u>	<u>25,828,787</u>	<u>64,621,968</u>
Expenses			
Program services expense			
Residential and education	13,155,274	-	13,155,274
Community based services	5,474,060	-	5,474,060
Total program services expense	<u>18,629,334</u>	<u>-</u>	<u>18,629,334</u>
Supporting services expense			
General and administrative	2,712,205	-	2,712,205
Fundraising and development	1,391,695	-	1,391,695
Total supporting services expense	<u>4,103,900</u>	<u>-</u>	<u>4,103,900</u>
Total expenses	<u>22,733,234</u>	<u>-</u>	<u>22,733,234</u>
Change in Net Assets	16,075,102	25,828,787	41,903,889
Net Assets, Beginning	<u>46,255,246</u>	<u>115,660,678</u>	<u>161,915,924</u>
Net Assets, Ending	<u>\$ 62,330,348</u>	<u>\$ 141,489,465</u>	<u>\$ 203,819,813</u>

Children's Home Society of South Dakota
Consolidated Statements of Functional Expenses
Year Ended June 30, 2022

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 9,238,912	\$ 3,079,476	\$ 12,318,388	\$ 1,266,712	\$ 713,886	\$ 14,298,986
Payroll taxes and benefits	2,411,919	932,881	3,344,800	290,585	156,199	3,791,584
Employment costs	14,624	18,294	32,918	74,356	11	107,285
Training and conferences	103,812	54,516	158,328	19,486	5,940	183,754
Professional services and fees	310,547	154,901	465,448	460,176	7,297	932,921
Food	515,235	61,560	576,795	-	-	576,795
Insurance	391,615	146,626	538,241	73,522	6,527	618,290
Travel	65,919	79,307	145,226	11,935	11,883	169,044
Occupancy	542,933	185,320	728,253	57,245	4,525	790,023
Goods and supplies	156,283	407,904	564,187	425,038	949,201	1,938,426
Printing and publications	2,857	13,106	15,963	9,059	53,163	78,185
Equipment maintenance and licenses	92,844	33,130	125,974	136,855	14,212	277,041
Bad debt	-	-	-	-	3,660	3,660
Depreciation	531,308	206,032	737,340	245,346	5,062	987,748
Other	1,923	26,406	28,329	75,265	476	104,070
	<u>\$ 14,380,731</u>	<u>\$ 5,399,459</u>	<u>\$ 19,780,190</u>	<u>\$ 3,145,580</u>	<u>\$ 1,932,042</u>	<u>\$ 24,857,812</u>

Children's Home Society of South Dakota
Consolidated Statements of Functional Expenses
Year Ended June 30, 2021

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 8,467,091	\$ 3,044,171	\$ 11,511,262	\$ 1,093,512	\$ 669,643	\$ 13,274,417
Payroll taxes and benefits	2,163,330	929,072	3,092,402	253,745	186,930	3,533,077
Employment costs	18,340	8,655	26,995	3,334	22	30,351
Training and conferences	98,193	59,467	157,660	30,122	6,120	193,902
Professional services and fees	343,270	280,399	623,669	318,918	5,749	948,336
Food	456,451	53,778	510,229	-	-	510,229
Insurance	333,203	118,953	452,156	41,679	2,279	496,114
Travel	45,888	41,092	86,980	21,282	2,613	110,875
Occupancy	471,905	199,106	671,011	45,296	3,972	720,279
Goods and supplies	171,509	497,121	668,630	496,087	436,391	1,601,108
Printing and publications	230	4,259	4,489	-	60,071	64,560
Equipment maintenance and licenses	71,886	31,881	103,767	142,543	12,002	258,312
Bad debt	508	-	508	-	-	508
Depreciation	512,704	181,975	694,679	246,032	2,785	943,496
Other	766	24,131	24,897	19,655	3,118	47,670
	<u>\$ 13,155,274</u>	<u>\$ 5,474,060</u>	<u>\$ 18,629,334</u>	<u>\$ 2,712,205</u>	<u>\$ 1,391,695</u>	<u>\$ 22,733,234</u>

Children's Home Society of South Dakota

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ (19,867,104)	\$ 41,903,889
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	987,748	943,496
Loss on disposal of equipment	(205,824)	15,155
Noncash donation of securities	(181,692)	(69,355)
Realized and unrealized loss (gain) on investments	28,823,589	(32,496,122)
Change in value of beneficial interest in assets held by others	674,899	(805,786)
Change in beneficial interest in trusts	669,333	(609,030)
Change in discount and allowance on contributions receivable	312,719	(395,945)
Contributions restricted for endowment including noncash gifts	(1,926,334)	(908,232)
Contributions restricted to building project	(1,562,638)	(253,150)
Change in cash surrender value of life insurance	(33,202)	(35,758)
Change in working capital components		
Receivables	(926,778)	3,986,790
Prepaid expenses	(130,905)	19,302
Accounts payable	133,882	(39,232)
Refundable advance - Paycheck Protection Program	-	(2,895,687)
Accrued expenses	59,194	(152,392)
Annuity obligations	(102)	13
Net Cash provided by Operating Activities	6,826,785	8,207,956
Investing Activities		
Purchase of land, buildings and equipment	(7,417,021)	(1,421,616)
Proceeds from insurance	340,218	-
Purchase of investments	(45,200,823)	(121,454,657)
Proceeds from sale and maturity of investments	44,500,641	111,120,687
Net Cash used for Investing Activities	(7,776,985)	(11,755,586)
Financing Activities		
Proceeds from contributions restricted for endowment	1,379,038	852,107
Proceeds from contributions restricted for investment in land, buildings and equipment	1,109,492	50,944
Net Cash provided by Financing Activities	2,488,530	903,051
Net Change in Cash and Cash Equivalents	1,538,330	(2,644,579)
Cash and Cash Equivalents, Beginning of Year	13,061,738	15,706,317
Cash and Cash Equivalents, End of Year	\$ 14,600,068	\$ 13,061,738
Supplemental Information		
Noncash investing and financing activities		
Accounts payable for land, buildings and equipment	\$ 1,290,333	\$ 57,653

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

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Children's Home Society of South Dakota and the Children's Home Foundation as Children's Home Society has both control and economic interest in the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "The Organization".

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, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Accounts Receivable

Accounts receivable are carried at the amount invoiced, less an allowance for doubtful accounts, if considered necessary. Accounts are determined to be past due based upon the contractual terms of the account. Interest is not charged on past due accounts. Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts are charged off when the balance is determined to be uncollectible. There were no allowances recorded at June 30, 2022 and 2021. Accounts receivable as of July 1, 2020 were \$1,461,769.

Contributions, Grants and Contracts Receivable

Unconditional contributions and bequests expected to be received within one year are recorded at their net realizable value. Unconditional contributions and bequests expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions and bequests are written off when deemed uncollectable. At June 30, 2022 and 2021, the allowance was \$387,000 and \$388,000, respectively.

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

Investments

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

Beneficial Interests in Trusts*Charitable Trust Held by Others*

The Organization has been named as an irrevocable beneficiary of certain charitable remainder trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Organization has neither possession nor control over the assets of the trusts. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the consolidated statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the consolidated statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities. Upon receipt of trust distributions, contributions with donor restrictions are released to net assets without donor restrictions.

Perpetual Trusts

The Organization has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Organization; however, the Organization will never receive the assets of the trusts. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities. In one instance, the donor has specifically granted the trustee the right to encroach upon principal on an as-needed basis. As a result, this perpetual trust is treated as net assets with donor restrictions in the consolidated statements of financial position.

Beneficial Interest in Assets Held by Community Foundations

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

Charitable Gift Annuities

Under charitable gift annuity contracts, the Organization 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.

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 (Note 11).

Land, Buildings and Equipment

Land, buildings and 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 the estimated useful lives of the assets ranging from three to forty years. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying value of land, buildings and equipment is reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2022 and 2021.

Revenue and Revenue Recognition

The Organization recognizes revenue from childcare and tuition as the related services are provided. The performance obligation of delivering childcare and tuition services is simultaneously received and consumed; therefore, the revenue is recognized ratably over the course of the year. Payment for childcare and tuition is required monthly. Program service fees and certain governmental and private grants paid in advance are deferred to the applicable period in which the related services are performed.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, 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. Amounts received with conditions and restrictions are recognized as revenue that increases net assets without donor restrictions if those conditions are met and restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. There were no refundable advances as of June 30, 2022 and 2021. The Organization received cost-reimbursable grants of approximately \$71,000 and \$408,000 that have not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred.

Net Assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations. Without donor restrictions board-designated net assets consist of net assets designated by the Board of Directors for operating reserve (Note 3) and quasi-endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Amounts are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Fund Raising Costs

Fund raising costs are expensed as incurred.

Functional Allocation of Expenses

The consolidated 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 consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. These expenses are allocated on a basis determined reasonable for allocation by management. The expenses that are allocated include property insurance and utilities that are allocated on a square-footage basis. General and professional liability insurance is allocated based on the percentage of full time equivalent employees by program. Salaries, payroll taxes and benefits, and printing and publications expenses are allocated on the basis of estimates of time and effort. Equipment maintenance and food expenses have been allocated to the residential and education programs as they primarily support these programs.

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.

Income Taxes

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

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

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 contributions, grants and contracts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and organizations supportive of the 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.

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.

Change in Accounting Principle

On July 1, 2021, the Organization has adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis, because it provides increased and more transparent disclosure around contributed nonfinancial assets.

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 consolidated statement of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 13,841,579	\$ 6,718,300
Accounts receivable	1,206,115	2,096,609
Contributions, grants and contracts receivable	1,852,782	863,642
Distributions from beneficial interests in trusts	154,436	169,584
Distributions from beneficial interests in assets held by community foundations	126,757	122,872
Spending-rate distributions and appropriations	<u>9,864,050</u>	<u>17,166,582</u>
	<u>\$ 27,045,719</u>	<u>\$ 27,137,589</u>

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

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

Board-designated endowments are considered available to the extent of the approved annual spending rate of 5 percent. Although the Organization 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 \$18,003,798 and \$17,216,504 as of June 30, 2022 and 2021, respectively. In addition to board designated endowments, the board has designated certain investments which were \$8,391,663 and \$9,981,425 as of June 30, 2022 and 2021, 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 \$5,318,614 and \$5,867,017 as of June 30, 2022 and 2021, respectively, and are further described in Note 3.

Note 3 - Designated Cash and Investments

The Board of Directors has designated that amounts equal to depreciation expense be set aside to fund property and equipment. The amount reported as designated cash and investments equals this amount, less property and equipment acquisitions paid for with such funds. The Board of Directors has also designated a portion of investments for endowment.

In addition, the Board of Directors has designated that funds held in certain unrestricted cash accounts at June 30, 2022 and 2021 be used for the purpose of funding employee benefits. Specifically, these investments will provide additional funding for the deferred compensation of key employees of the Organization (Note 15).

The following summarizes designated cash and investments at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents		
Self-funded insurance reserve	\$ 395,698	\$ 390,046
Depreciation reserve	4,922,916	5,476,971
Investments		
Depreciation	250,560	250,000
Operating reserve	8,141,103	9,665,392
Deferred compensation	-	66,034
Endowment	18,003,798	17,216,504
	<u>\$ 31,714,075</u>	<u>\$ 33,064,947</u>

Note 4 - Contributions, Grants and Contracts Receivable

Contributions, grants, and contracts receivable at June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Endowment	\$ 1,081,135	\$ 712,620
Children's Inn	2,687,150	313,096
Government agencies	298,057	239,666
United Way - Children's Inn and Bright Start	435,467	435,666
Total contributions, grants and contracts receivable	<u>4,501,809</u>	<u>1,701,048</u>
Less		
Discount to net present value at 3.25% to 6.4%	(343,208)	(30,489)
Allowance for uncollectible pledges	<u>(387,000)</u>	<u>(388,000)</u>
Net contributions, grants and contracts receivable	<u>\$ 3,771,601</u>	<u>\$ 1,282,559</u>

At June 30, 2022 and 2021, three and one donors accounted for approximately 37% and 12%, respectively, of total contributions, grants and contracts receivable.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2022.

	<u>Due by June 30</u>	
2023		\$ 2,443,532
2024		780,237
2025		330,725
2026		213,315
2027		90,500
Thereafter		<u>643,500</u>
		<u>\$ 4,501,809</u>

Note 5 - Investments

The following summarizes investments by major investment type at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Without donor restrictions		
Cash equivalents and money market funds	\$ 3,924,653	\$ 3,537,345
Certificates of deposit	1,489,528	1,755,858
Corporate debt securities	259,648	11,097
Mutual funds - equity securities	17,720,957	22,162,904
Mutual funds - debt securities	7,113,626	8,706,767
Common stock	-	-
	<u>30,508,412</u>	<u>36,173,971</u>
With donor restrictions		
Cash equivalents and money market funds	7,503,507	11,842,537
Certificates of deposit	274,990	3,337,292
State and municipal government obligations	128,112	145,052
Corporate debt securities	1,391,706	1,978,389
Mutual funds - equity securities	69,791,126	80,375,058
Mutual funds - debt securities	<u>30,065,225</u>	<u>33,752,494</u>
	<u>109,154,666</u>	<u>131,430,822</u>
	<u>\$ 139,663,078</u>	<u>\$ 167,604,793</u>

Investment income from investments is recorded net of related investment fees of \$391,221 and \$341,258 for the years ended June 30, 2022 and 2021, respectively.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 6 - Beneficial Interest in Trusts

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2022 and 2021:

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Beneficial interest in perpetual trusts				
Williamson Trust	\$ -	\$ 133,041	\$ 133,041	\$ 159,753
A. Coe Frankhauser Charitable Trust	-	121,499	121,499	142,704
Thelma Serr Charitable Trust	-	300,898	300,898	373,595
Hayward Memorial Trust	-	135,595	135,595	153,899
Beach Memorial Trust	-	324,359	324,359	400,197
Beneficial interest in charitable trusts				
Edith Siegrist Trust	-	172,631	172,631	210,699
Didier Charitable Annuity Trust	-	122,276	122,276	168,973
Verne and Bonnie Anderson Trust	-	1,606,221	1,606,221	1,976,033
	<u>\$ -</u>	<u>\$ 2,916,520</u>	<u>\$ 2,916,520</u>	<u>\$ 3,585,853</u>

The Organization is also the beneficiary under various wills and revocable split interest agreements, the total realizable amount of which is not presently determinable. Such amounts will be recorded when an irrevocable right to receive benefits under the will or agreement has been received.

Note 7 - Land, Buildings, and Equipment

The following summarizes land, buildings and equipment at June 30, 2022 and 2021:

	2022	2021
Land and improvements	\$ 2,735,184	\$ 2,730,530
Buildings and improvements	18,911,558	19,253,309
Equipment and fixtures	4,648,022	4,818,444
Vehicles	650,237	730,616
Construction in progress	8,599,703	518,640
	<u>35,544,704</u>	<u>28,051,539</u>
Less accumulated depreciation	<u>(14,973,225)</u>	<u>(15,007,619)</u>
	<u>\$ 20,571,479</u>	<u>\$ 13,043,920</u>

Construction in progress relates to costs incurred in relation to construction of new shelter for family safety (Note 17).

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 8 - Non-Recognized Funds Held by Community Foundations

A number of designated funds which benefit the Organization are maintained at the Sioux Falls Area Community Foundation (SFACF). These funds were established as a result of gifts by donors on the Organization's behalf. The Organization is the sole beneficiary of these funds; however, SFACF has been given variance power by the donors. Therefore, the Organization does not recognize its interest in these funds until any distributions are received.

The following summarizes current values of these designated funds at June 30, 2022 and 2021, and the annual distributions for the years ended June 30, 2022 and 2021:

	2022		2021	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 95,405	\$ 3,862	\$ 114,894	\$ 3,682
Dorothy Christopherson Fund	47,826	1,936	57,595	1,846
Children's Home Society Endowment	940,205	38,052	1,132,258	36,279
Lou & Helen Madsen Fund	510,405	20,644	614,649	19,678
Larsen Memorial Fund	141,462	5,726	170,359	5,460
Raymond Daugaard Memorial Fund	71,584	2,897	86,206	2,763
Madden Family Fund	93,447	1,000	111,015	-
Children's Inn Endowment	75,787	1,556	89,777	2,628
Madsen House Endowment	115,588	-	134,519	-
Madsen Adoption and Foster Care Endowment	37,341	1,510	44,967	1,439
Excellence in Caring Endowment	31,764	1,313	38,304	1,251
Child Advocacy Center Endowment	21,503	870	25,895	830
Music Fund	17,379	703	20,925	671
Creative Arts	36,969	625	42,426	266
Carmody Family Endowment	14,327	580	17,253	553
Child's Voice Endowment	13,600	551	16,379	525
Amundson Family Endowment	41,658	1,599	50,080	1,453
The Sunshyne Fund	5,737	232	6,909	221
Solveig Steen Endowment	155,469	5,882	178,460	5,560
Elvira Larson Endowment	11,276	456	13,579	435
Links to Literacy Endowment	22,693	922	27,379	881
Profilet Endowment	281,809	2,863	85,001	2,736
	<u>\$ 2,783,234</u>	<u>\$ 93,779</u>	<u>\$ 3,078,829</u>	<u>\$ 89,157</u>

In addition, the South Dakota Community Foundation has funds totaling \$702,929 and \$805,042 at June 30, 2022 and 2021, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until any distributions are received. Distributions received totaled \$32,456 and \$26,115 for the years ended June 30, 2022 and 2021, respectively.

Note 9 - Fair Value of Assets and Liabilities

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Assets		
Certificates of deposit	\$ 1,764,518	\$ 5,093,150
State and municipal government obligations	128,112	145,052
Corporate debt securities	1,651,354	1,989,486
Mutual funds - equity securities	87,512,083	102,537,962
Mutual funds - debt securities	37,178,851	42,459,261
Beneficial interest in trusts	2,916,520	3,585,853
Beneficial interest in assets held by community foundations	<u>3,453,814</u>	<u>4,128,713</u>
	<u>\$ 134,605,252</u>	<u>\$ 159,939,477</u>
Liabilities		
Annuity obligations	<u>\$ 12,217</u>	<u>\$ 12,319</u>

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Notes to Consolidated Financial Statements

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The related fair values of these assets and liabilities are determined as follows at June 30, 2022:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Certificates of deposit	\$ -	\$ 1,764,518	\$ -	\$ 1,764,518
State and municipal government obligations	-	128,112	-	128,112
Corporate debt securities	-	1,651,354	-	1,651,354
Mutual funds - equity securities	87,512,083	-	-	87,512,083
Mutual funds - debt securities	37,178,851	-	-	37,178,851
Total investments valued at fair value	<u>124,690,934</u>	<u>3,543,984</u>	-	<u>128,234,918</u>
Beneficial interest in trusts	-	-	2,916,520	2,916,520
Beneficial interest in assets held by community foundations	-	-	3,453,814	3,453,814
	<u>\$ 124,690,934</u>	<u>\$ 3,543,984</u>	<u>\$ 6,370,334</u>	<u>\$ 134,605,252</u>
Liabilities				
Annuity obligations	\$ -	\$ -	\$ 12,217	\$ 12,217

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	\$ -	\$ 5,093,150	\$ -	\$ 5,093,150
State and municipal government obligations	-	145,052	-	145,052
Corporate debt securities	-	1,989,486	-	1,989,486
Mutual funds - equity securities	102,537,962	-	-	102,537,962
Mutual funds - debt securities	42,459,261	-	-	42,459,261
Total investments valued at fair value	<u>144,997,223</u>	<u>7,227,688</u>	-	<u>152,224,911</u>
Beneficial interest in trusts	-	-	3,585,853	3,585,853
Beneficial interest in assets held by community foundations	-	-	4,128,713	4,128,713
	<u>\$ 144,997,223</u>	<u>\$ 7,227,688</u>	<u>\$ 7,714,566</u>	<u>\$ 159,939,477</u>
Liabilities				
Annuity obligations	\$ -	\$ -	\$ 12,319	\$ 12,319

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 2022 and 2021:

	Beneficial Interest in	
	Community Foundations	Trusts
Balance, June 30, 2020	\$ 3,322,927	\$ 2,976,823
Total gains or losses		
Included in change in net assets, net of fees	928,645	609,030
Purchases and sales		
Sales (distributions from the CF)	(122,859)	-
Balance, June 30, 2021	4,128,713	3,585,853
Total gains or losses		
Included in change in net assets, net of fees	(521,821)	(669,333)
Purchases and sales		
Sales (distributions from the CF)	(153,078)	-
Balance, June 30, 2022	\$ 3,453,814	\$ 2,916,520

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

	Annuity Obligations
Balance, June 30, 2020	\$ 12,306
Changes in the value of annuity obligations	13
Balance, June 30, 2021	12,319
Changes in the value of annuity obligations	(102)
Balance, June 30, 2022	\$ 12,217

Note 10 - Cash Surrender Value of Life Insurance

The Organization is the beneficiary of life insurance policies on the lives of certain employees, former employees and donors. Premiums paid by the donors are recorded as contributions received. Premiums paid by the Organization are recorded as life insurance expense. The face values of the policies were approximately \$2,217,000 and \$2,224,000 at June 30, 2022 and 2021. The policies had cash values of \$1,115,684 and \$1,082,482 at June 30, 2022 and 2021, respectively. Investments in cash surrender value of life insurance are carried at their contract amount.

Note 11 - Donated Professional Services and Materials

The Organization received donated professional services and materials as follows during the years ended June 30, 2022 and 2021:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2022</u>				
Advertising and printing	\$ -	\$ -	\$ 772,603	\$ 772,603
Events	8,135	-	219,803	227,938
Professional services	10,213	7,600	326	18,139
Goods and supplies	366,675	-	2,355	369,030
Construction in progress	-	-	-	371,500
	<u>\$ 385,023</u>	<u>\$ 7,600</u>	<u>\$ 995,087</u>	<u>\$ 1,759,210</u>
<u>June 30, 2021</u>				
Advertising and printing	\$ -	\$ -	\$ 377,502	\$ 377,502
Events	4,001	-	119,283	123,284
Professional services	4,915	15,000	-	19,915
Goods and supplies	522,737	-	125	522,862
	<u>\$ 531,653</u>	<u>\$ 15,000</u>	<u>\$ 496,910</u>	<u>\$ 1,043,563</u>

The Organization receives free advertising through radio, digital, and television advertisements that serve to support its programs. These donated advertisements are recognized as in-kind contributions at fair value, with a corresponding expense allocated to the programs benefitted, as they are delivered to the public. The valuation of these advertisements is provided by the service provider, who estimates the fair value based on the date, time, and market in which each is displayed.

The contributed events donations include gift cards and other donated items to be raffled or used as prizes at events held by the Organization. The contributed goods and supplies include food and non-food items such as household goods, toys, clothing, and other items that would have otherwise been purchased to run its programs. The Organization estimated the fair value of these items based on values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the items are contributed by the donor.

The Organization receives donated professional services that would typically be purchased if not provided as an in-kind contribution. In addition, there were \$371,500 and \$0 of donated materials and services related to the construction in progress of the new shelter for family safety. These services, which require specialized skills, are recognized as in-kind contributions at fair value when the service is provided. The estimated fair value of these professional services is provided by the service provider, who estimates the fair value based on the date, time, and market in which the service is rendered.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 12 - Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose or passage of time		
Various Children's Home Society programs	\$ 1,587,296	\$ 2,778,919
Child's Voice and Child Advocacy Center	5,840	8,826
Children's Inn programs	10,358,807	7,623,220
Building maintenance	729	509
Black Hills programs	2,196,817	2,640,547
Creative arts	1,738	1,519
Advocacy and prevention	495,865	527,323
Children's Inn facility	7,493,998	6,099,949
United Way and other program expenses	1,035,965	1,105,144
	<u>23,177,055</u>	<u>20,785,956</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 17)	<u>12,706,120</u>	<u>32,809,350</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Various Children's Home Society programs	68,660,262	68,508,892
Child's Voice and Child Advocacy Center	3,558,871	3,370,540
Children's Inn programs	1,257,840	1,196,989
Building maintenance	293,647	293,647
Black Hills programs	467,933	412,433
Creative Arts	1,461,963	1,357,221
Mark Amundson Memorial	231,058	229,008
Advocacy and prevention	1,798,488	1,788,488
Adoption	457,728	411,765
Children's Inn new facility	6,630,809	5,883,335
Contributions and bequests receivable, net - permanently restricted to general endowment	636,705	144,518
	<u>85,455,304</u>	<u>83,596,836</u>
Not subject to spending policy or appropriation		
Beneficial interest in trusts	879,797	1,076,249
Beneficial interest in community foundations	3,221,074	3,221,074
	<u>4,100,871</u>	<u>4,297,323</u>
	<u>\$ 125,439,350</u>	<u>\$ 141,489,465</u>

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Notes to Consolidated Financial Statements

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Satisfaction of purpose and/or time restrictions		
Black Hills programs	\$ 69,739	\$54,127
Children's Inn programs	45,558	626,165
Donor redirection of funds - front line staff salaries and benefits	-	4,126,846
Advocacy and prevention	35,700	13,083
Various Children's Home Society programs	1,104,211	1,027,065
	1,255,208	5,847,286
 Restricted-purpose spending rate distributions and appropriations (Note 17)	 2,078,878	 1,953,295
	 \$ 3,334,086	 \$ 7,800,581

Note 13 - Scholarship Contributions

The Organization has received both contributions with donor restrictions and contributions without donor restrictions which have been and will be used as scholarships for tuition for children who would not otherwise be able to attend the education programs. These amounts are classified as contributions in the consolidated statements of activities and are recognized as income in the year the contribution was received. Tuition income, which does not include these contributions received, would have been approximately \$150,000 and \$178,000 higher for 2022 and 2021, respectively.

Note 14 - Revenue from Governmental Units

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

Note 15 - Employee Benefit Plans

The Organization has established a defined contribution 401(k) retirement plan covering all eligible employees who have attained the age of 21 and have one year of service. The plan allows employees the option to make elective deferral contributions and the Organization the ability to make discretionary matching contributions based upon the participants' deferrals and/or discretionary profit-sharing contributions which are allocated to all eligible participants based upon their eligible compensation. Retirement plan contributions for the years ended June 30, 2022 and 2021 were 8% or \$801,460 and \$719,664, respectively.

The Organization had deferred compensation agreements with four key employees and two retired employees which provide for benefits upon retirement, or for their beneficiaries if the employee dies before retirement. The Organization is accruing the estimated net present value of the required payments at the earliest dates in which the benefits vest. Four of the plans were considered vested on the date the employees attain the age 65 or January 2020, whichever is first. The other two plans are considered to be fully vested after a period of 10 years or March 2027. No benefits will be paid to the employees should employment be terminated by either party prior to the vesting date. At June 30, 2022, only one plan remains on one of the retired employees. At June 30, 2022 and 2021, \$23,663 and \$118,188, respectively, has been accrued and recorded as a liability in the accompanying consolidated financial statements. The Organization owns life insurance policies on one of these individuals. The Organization will receive the death benefits under the terms of the agreement.

Note 16 - Endowment Funds

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

Interpretation of Relevant Law

The Organization'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 Organization 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 Organization 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 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 investment; (6) other resources of the Organization; and (7) the investment policies of the Organization.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following summarizes endowment net assets at June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 18,003,798	\$ -	\$ 18,003,798
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	-	69,296,967	69,296,967
Child's Voice and Child Advocacy Center	-	3,558,871	3,558,871
Children's Inn programs	-	1,257,840	1,257,840
Building maintenance	-	293,647	293,647
Black Hills programs	-	467,933	467,933
Creative Arts	-	1,461,963	1,461,963
Mark Amundson Memorial	-	231,058	231,058
Advocacy and prevention	-	1,798,488	1,798,488
Adoption	-	457,728	457,728
Children's Inn new facility	-	6,630,809	6,630,809
Accumulated investment gains			
Various Children's Home Society programs	-	10,892,198	10,892,198
Child's Voice and Child Advocacy Center	-	442,543	442,543
Children's Inn programs	-	678,375	678,375
Building maintenance	-	495,452	495,452
Black Hills programs	-	149,088	149,088
Creative Arts	-	386,203	386,203
Mark Amundson Memorial	-	31,937	31,937
Advocacy and prevention	-	283,781	283,781
Adoption	-	33,095	33,095
Children's Inn new facility	-	(686,552)	(686,552)
	<u>\$ 18,003,798</u>	<u>\$ 98,161,424</u>	<u>\$ 116,165,222</u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

	Without Donor Restrictions	With Donor Restrictions	Total
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	-	68,653,410	68,653,410
Child's Voice and Child Advocacy Center	-	3,370,540	3,370,540
Children's Inn programs	-	1,196,989	1,196,989
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	-	5,883,335	5,883,335
Accumulated investment gains			
Various Children's Home Society programs	-	28,604,212	28,604,212
Child's Voice and Child Advocacy Center	-	155,847	155,847
Children's Inn programs	-	1,092,272	1,092,272
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
	\$ 17,216,504	\$ 116,406,186	\$ 133,622,690

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 Organization to retain as a fund of perpetual duration, (i.e., underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, funds with original gift values of \$6,626,220, fair values of \$5,939,668, and deficiencies of \$686,552 were reported in net assets with donor restrictions. At June 30, 2021, there were no deficiencies of this nature reported in net assets with donor restrictions.

Investment Spending Policies

The Organization has adopted investment and spending policies for its endowment fund that attempt to provide the Organization a predictable funding stream for its programs while protecting the purchasing power of the endowment funds. The Organization, 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 Organization expects to maintain appropriate diversification among equity and fixed income allocations. The purpose is to moderate the overall investment risk of the endowment fund.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The Board of Directors of the Organization may appropriate for expenditure or accumulate so much of the endowment fund as the Organization 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, 2022 and 2021.

The following summarizes the change in endowment net assets for the years ended June 30, 2022 and 2021:

<u>June 30, 2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 17,216,504	\$ 116,406,186	\$ 133,622,690
Investment return, net	(3,381,011)	(18,023,996)	(21,405,007)
Contributions and bequests	7,497	1,858,112	1,865,609
Appropriation of endowment assets pursuant to spending-rate policy	-	(2,078,878)	(2,078,878)
Other changes			
Board designated transfer	4,856,323	-	4,856,323
Distribution from board-designated endowment pursuant to distribution policy	(695,515)	-	(695,515)
Endowment net assets, end of year	<u>\$ 18,003,798</u>	<u>\$ 98,161,424</u>	<u>\$ 116,165,222</u>
<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	\$ 84,971,072	\$ 98,493,826
Investment return, net	4,263,647	26,820,102	31,083,749
Contributions and bequests	98,672	6,568,307	6,666,979
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,953,295)	(1,953,295)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(668,569)	-	(668,569)
Endowment net assets, end of year	<u>\$ 17,216,504</u>	<u>\$ 116,406,186</u>	<u>\$ 133,622,690</u>

Note 17 - Commitments and Contingencies

Property acquired with federal grants is considered owned by the Organization while used in the program for which it was purchased or in other future authorized programs; however, the United States has reversionary interests in certain property. The property's disposition as well as the ownership of any proceeds there from is subject to federal regulations. The total book value of property and equipment in which the United States has reversionary interest is \$1,679,379 and \$1,797,288 at June 30, 2022 and 2021, respectively.

Community Development Block Grants totaling \$915,000, which have been received and used for construction of buildings, are in the form of zero percent notes payable, with mortgages on the property. The notes are due upon noncompliance with the intended purpose of the funds, as defined in the agreement, or upon sale of the property. Since the possibility of having to repay the notes is considered remote, no liability has been recorded for the notes. The net book value of the property pledged on these mortgages is \$1,080,523 and \$1,165,986 at June 30, 2022 and 2021, respectively, and is included in the reversionary interest amount above.

The Organization has entered into a contract for construction of the new shelter for family safety. The remaining commitment on the contract as of June 30, 2022 is approximately \$4,820,000.

The Organization has a signed agreement for employee leadership training through 2023. Remaining commitment related to the training was \$98,500 at June 30, 2022. The Organization also entered into a three-year contract to upgrade software. The remaining commitment on the agreement was approximately \$27,700 at June 30, 2022. The Organization also entered into an 18-month contract for a software solution. The remaining commitment on the agreement was \$96,050 at June 30, 2022.

The Organization applied for and received loan forgiveness from the SBA on its PPP loan in 2021. In accordance with the PPP loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

Note 18 - Subsequent Events

In December 2022, the Organization sold the Children's Inn facility at a price of \$1,300,000 and estimated loss of \$138,000.

In November 2022, the Organization entered into a \$3,000,000 construction loan related to the construction of the new shelter for family safety. The note bears interest at the rate of 5.5% and is due in full on September 30, 2023.

Management has considered subsequent events through December 30, 2022, the date that the consolidated financial statements were available to be issued.



Supplementary Information
June 30, 2022 and 2021

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Consolidating Statement of Financial Position
June 30, 2022

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Assets				
Cash and cash equivalents				
Undesignated	\$ 5,750,649	\$ 2,720,072	\$ -	\$ 8,470,721
Designated	5,053,572	265,042	-	5,318,614
Restricted	194,277	616,456	-	810,733
	<u>10,998,498</u>	<u>3,601,570</u>	<u>-</u>	<u>14,600,068</u>
Accounts receivable	1,208,912	118,856	-	1,327,768
Contributions, grants and contracts receivable, net	738,113	3,033,488	-	3,771,601
Due from Children's Home Foundation	5,211,646	-	(5,211,646)	-
Prepaid expenses	493,257	7,940	-	501,197
Investments	3,245,663	136,417,415	-	139,663,078
Beneficial interest in trusts	985,942	1,930,578	-	2,916,520
Beneficial interest in assets held by community foundations	-	3,453,814	-	3,453,814
Cash surrender value of life insurance	-	1,115,684	-	1,115,684
Land, buildings and equipment, net	20,560,735	10,744	-	20,571,479
	<u>43,442,766</u>	<u>149,690,089</u>	<u>(5,211,646)</u>	<u>187,921,209</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	1,498,873	114,555	-	1,613,428
Accrued expenses	2,278,056	64,799	-	2,342,855
Annuity obligations	-	12,217	-	12,217
Due to Children's Home Society	-	5,211,646	(5,211,646)	-
Total liabilities	<u>3,776,929</u>	<u>5,403,217</u>	<u>(5,211,646)</u>	<u>3,968,500</u>
Net Assets				
Without donor restrictions				
Undesignated	24,037,392	2,761,892	-	26,799,284
Board designated	7,121,757	24,592,318	-	31,714,075
With donor restrictions	8,506,688	116,932,662	-	125,439,350
Total net assets	<u>39,665,837</u>	<u>144,286,872</u>	<u>-</u>	<u>183,952,709</u>
	<u>\$ 43,442,766</u>	<u>\$ 149,690,089</u>	<u>\$ (5,211,646)</u>	<u>\$ 187,921,209</u>

Children's Home Society of South Dakota
Consolidating Statement of Activities
Year Ended June 30, 2022

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Revenue, Gains and Other Support				
Child care	\$ 9,482,485	\$ -	\$ -	\$ 9,482,485
Tuition	3,418,450	-	-	3,418,450
Contributions and bequests	707,985	8,369,844	128,781	9,206,610
Support from government agencies	4,667,779	-	-	4,667,779
Children's Home Foundation	3,428,453	-	(3,428,453)	-
Children's Inn contributions	197,856	-	-	197,856
United Way support	873,300	-	-	873,300
In-kind contributions	710,269	1,048,941	-	1,759,210
Increase in cash surrender value of life insurance	-	33,202	-	33,202
Distributions from perpetual trusts	57,652	-	-	57,652
Investment return, net	(521,697)	(23,369,764)	-	(23,891,461)
Distributions from and change in value of beneficial interests in assets held by others	-	(674,899)	-	(674,899)
Change in value of beneficial interest in trusts	(223,681)	(445,652)	-	(669,333)
Change in value of annuity obligations	-	(1,528)	-	(1,528)
Gain on asset disposal	205,824	-	-	205,824
Other	350,761	-	(25,200)	325,561
	<u>23,355,436</u>	<u>(15,039,856)</u>	<u>(3,324,872)</u>	<u>4,990,708</u>
Expenses				
Program services				
Residential and education	14,380,731	-	-	14,380,731
Community based services	5,375,531	23,928	-	5,399,459
Contribution to Children's Home Society	-	3,299,672	(3,299,672)	-
	<u>19,756,262</u>	<u>3,323,600</u>	<u>(3,299,672)</u>	<u>19,780,190</u>
Supporting services expenses				
General and administrative	3,087,127	58,453	-	3,145,580
Fundraising and development	261,665	1,695,577	(25,200)	1,932,042
	<u>3,348,792</u>	<u>1,754,030</u>	<u>(25,200)</u>	<u>5,077,622</u>
	<u>23,105,054</u>	<u>5,077,630</u>	<u>(3,324,872)</u>	<u>24,857,812</u>
Change in Net Assets Before Transfers	250,382	(20,117,486)	-	(19,867,104)
Transfer from Children's Home Society	5,581,638	(5,581,638)	-	-
Change in Net Assets	5,832,020	(25,699,124)	-	(19,867,104)
Net Assets, Beginning of Year	33,833,817	169,985,996	-	203,819,813
Net Assets, End of Year	<u>\$ 39,665,837</u>	<u>\$ 144,286,872</u>	<u>\$ -</u>	<u>\$ 183,952,709</u>

Children's Home Society of South Dakota
Consolidating Statement of Cash Flows
Year Ended June 30, 2022

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Operating Activities				
Change in net assets	\$ 5,832,020	(25,699,124)	\$ -	\$ (19,867,104)
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	984,792	2,956	-	987,748
Gain on disposal of equipment	(205,824)	-	-	(205,824)
Realized and unrealized loss on investments	659,855	28,163,734	-	28,823,589
Noncash donation of securities	-	(181,692)	-	(181,692)
Change in value of beneficial interest in assets held by others	-	674,899	-	674,899
Change in beneficial interest in trusts	223,681	445,652	-	669,333
Change in discount and allowance on contributions receivable	(8,727)	321,446	-	312,719
Contributions restricted for endowment including noncash gifts	(120,364)	(1,805,970)	-	(1,926,334)
Contributions restricted to building project	-	(1,562,638)	-	(1,562,638)
Change in cash surrender value of life insurance	-	(33,202)	-	(33,202)
Change in working capital components				
Receivables	769,733	(1,937,203)	240,692	(926,778)
Prepaid expenses	(124,905)	(6,000)	-	(130,905)
Accounts payable	21,609	112,273	-	133,882
Accrued expenses	109,341	(50,147)	-	59,194
Annuity obligations	-	(102)	-	(102)
Due to Children's Home Society	-	240,692	(240,692)	-
Net Cash provided by (used for) Operating Activities	<u>8,141,211</u>	<u>(1,314,426)</u>	<u>-</u>	<u>6,826,785</u>
Investing Activities				
Purchase of land, buildings and equipment	(7,404,420)	(12,601)	-	(7,417,021)
Proceeds from insurance	340,218	-	-	340,218
Purchase of investments	(1,039,576)	(44,161,247)	-	(45,200,823)
Proceeds from sale and maturity of investments	816,390	43,684,251	-	44,500,641
Net Cash used for Investing Activities	<u>(7,287,388)</u>	<u>(489,597)</u>	<u>-</u>	<u>(7,776,985)</u>
Financing Activities				
Proceeds from contributions restricted for endowment	155,364	1,223,674	-	1,379,038
Proceeds from contributions restricted for investment in land, buildings and equipment	-	1,109,492	-	1,109,492
Net Cash provided by Financing Activities	<u>155,364</u>	<u>2,333,166</u>	<u>-</u>	<u>2,488,530</u>
Net Change in Cash and Cash Equivalents	1,009,187	529,143	-	1,538,330
Cash and Cash Equivalents, Beginning of Year	<u>9,989,311</u>	<u>3,072,427</u>	<u>-</u>	<u>13,061,738</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,998,498</u>	<u>3,601,570</u>	<u>\$ -</u>	<u>\$ 14,600,068</u>
Supplemental Information				
Noncash investing and financing activities				
Accounts payable for land, buildings and equipment	\$ 1,290,333	\$ -	\$ -	\$ 1,290,333