



Consolidated Financial Statements  
June 30, 2020 and 2019

# Children's Home Society of South Dakota

Children's Home Society of South Dakota

Table of Contents

June 30, 2020 and 2019

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Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statements of Financial Position .....	3
Consolidated Statement of Activities .....	4
Consolidated Statement of Functional Expenses .....	6
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9
Supplementary Information	
Consolidating Statement of Financial Position .....	32
Consolidating Statement of Activities.....	33
Consolidating Statement of Cash Flows.....	34



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Society of South Dakota and Children's Home Foundation as of June 30, 2020 and 2019, 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.

## **Report on Consolidating Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 32 through 34 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2020 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society'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 Society's internal control over financial reporting and compliance.



Sioux Falls, South Dakota  
October 28, 2020

# Children's Home Society of South Dakota

## Consolidated Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents		
Undesignated	\$ 7,691,542	\$ 9,126,697
Designated	4,409,668	4,654,526
Restricted	3,605,107	684,720
	15,706,317	14,465,943
Accounts receivable	1,461,769	1,337,883
Contributions, grants and contracts receivable, net	5,424,968	782,611
Prepaid expenses	389,594	364,015
Investments	124,635,991	124,700,346
Beneficial interest in trusts	2,976,823	3,032,364
Beneficial interest in assets held by community foundations	3,322,927	3,358,185
Cash surrender value of life insurance	1,046,724	1,009,039
Land, buildings and equipment, net	12,523,302	13,028,707
	\$ 167,488,415	\$ 162,079,093
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 228,445	\$ 550,365
Accrued expenses	2,436,053	2,634,166
Refundable advance - Paycheck Protection Program	2,895,687	-
Annuity obligations	12,306	12,185
	5,572,491	3,196,716
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	20,670,415	21,781,934
Board designated	25,584,831	24,682,234
With donor restrictions	115,660,678	112,418,209
	161,915,924	158,882,377
	\$ 167,488,415	\$ 162,079,093

Children's Home Society of South Dakota  
Consolidated Statement of Activities  
Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Other Support</b>			
Childcare	\$ 9,647,699	\$ -	\$ 9,647,699
Tuition	3,200,456	-	3,200,456
Contributions and bequests	1,778,914	5,489,555	7,268,469
Support from government agencies	2,656,791	-	2,656,791
Children's Inn contributions	-	501,552	501,552
United Way support	-	873,100	873,100
Interest on cash and cash equivalents	26,704	-	26,704
Gifts-in-kind	1,110,349	-	1,110,349
Increase in cash surrender value of life insurance	37,779	-	37,779
Distributions from perpetual trusts	36,671	-	36,671
Net loss on investments carried at fair value	(495,817)	(3,112,833)	(3,608,650)
Distributions from and change in value of beneficial interests in assets held by others	1,017	(38,280)	(37,263)
Investment income	554,411	2,951,049	3,505,460
Change in value of beneficial interest in trusts	-	(55,541)	(55,541)
Change in value of annuity obligations	(1,751)	-	(1,751)
Other	247,833	-	247,833
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,855,410	(1,855,410)	-
Net assets released from restrictions - other	1,510,723	(1,510,723)	-
Total revenue, gains and other support	<u>22,167,189</u>	<u>3,242,469</u>	<u>25,409,658</u>
<b>Expenses</b>			
Program services expense			
Residential and education	12,396,933	-	12,396,933
Community based services	5,774,428	-	5,774,428
Total program services expense	<u>18,171,361</u>	<u>-</u>	<u>18,171,361</u>
Supporting services expense			
General and administrative	2,608,527	-	2,608,527
Fundraising and development	1,596,223	-	1,596,223
Total supporting services expense	<u>4,204,750</u>	<u>-</u>	<u>4,204,750</u>
Total expenses	<u>22,376,111</u>	<u>-</u>	<u>22,376,111</u>
Change in Net Assets	(208,922)	3,242,469	3,033,547
Net Assets, Beginning	<u>46,464,168</u>	<u>112,418,209</u>	<u>158,882,377</u>
Net Assets, Ending	<u>\$ 46,255,246</u>	<u>\$ 115,660,678</u>	<u>\$ 161,915,924</u>

Children's Home Society of South Dakota  
Consolidated Statement of Activities  
Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support			
Childcare	\$ 9,185,814	\$ -	\$ 9,185,814
Tuition	3,099,964	-	3,099,964
Contributions and bequests	1,809,412	56,972,417	58,781,829
Support from government agencies	2,455,047	-	2,455,047
Children's Inn contributions	-	434,470	434,470
United Way support	-	861,800	861,800
Interest on cash and cash equivalents	44,867	-	44,867
Gifts-in-kind	1,280,761	-	1,280,761
Increase in cash surrender value of life insurance	36,164	-	36,164
Distributions from perpetual trusts	36,080	-	36,080
Net gain on investments carried at fair value	549,186	2,760,395	3,309,581
Distributions from and change in value of beneficial interests in assets held by others	(1,491)	35,406	33,915
Investment income	488,965	1,656,505	2,145,470
Change in value of beneficial interest in trusts	-	(3,510)	(3,510)
Change in value of annuity obligations	(1,609)	-	(1,609)
Other	261,277	-	261,277
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,786,396	(1,786,396)	-
Net assets released from restrictions - other	1,714,148	(1,714,148)	-
Total revenue, gains and other support	<u>22,744,981</u>	<u>59,216,939</u>	<u>81,961,920</u>
Expenses			
Program services expense			
Residential and education	12,549,005	-	12,549,005
Community based services	5,822,744	-	5,822,744
Total program services expense	<u>18,371,749</u>	<u>-</u>	<u>18,371,749</u>
Supporting services expense			
General and administrative	1,916,383	-	1,916,383
Fundraising and development	1,993,909	-	1,993,909
Total supporting services expense	<u>3,910,292</u>	<u>-</u>	<u>3,910,292</u>
Total expenses	<u>22,282,041</u>	<u>-</u>	<u>22,282,041</u>
Change in Net Assets	462,940	59,216,939	59,679,879
Net Assets, Beginning	<u>46,001,228</u>	<u>53,201,270</u>	<u>99,202,498</u>
Net Assets, Ending	<u>\$ 46,464,168</u>	<u>\$ 112,418,209</u>	<u>\$ 158,882,377</u>

Children's Home Society of South Dakota  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2020

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 7,982,830	\$ 3,297,454	\$ 11,280,284	\$ 957,571	\$ 559,023	\$ 12,796,878
Payroll taxes and benefits	1,947,425	1,035,740	2,983,165	326,974	153,850	3,463,989
Employment costs	46,783	13,537	60,320	3,581	415	64,316
Training and conferences	18,049	20,801	38,850	1,964	573	41,387
Professional services and fees	321,066	298,129	619,195	340,775	2,939	962,909
Food	461,689	55,456	517,145	-	-	517,145
Insurance	330,099	124,836	454,935	36,919	7,599	499,453
Travel	21,421	73,116	94,537	5,736	3,195	103,468
Occupancy	430,852	192,344	623,196	41,892	3,087	668,175
Goods and supplies	208,666	391,366	600,032	382,014	824,094	1,806,140
Printing and publications	-	5,350	5,350	9,774	24,692	39,816
Equipment maintenance and licen	128,084	47,272	175,356	76,311	12,374	264,041
Bad debt	-	-	-	-	-	-
Depreciation	495,802	195,454	691,256	244,625	3,033	938,914
Other	4,167	23,573	27,740	180,391	1,349	209,480
	<u>\$ 12,396,933</u>	<u>\$ 5,774,428</u>	<u>\$ 18,171,361</u>	<u>\$ 2,608,527</u>	<u>\$ 1,596,223</u>	<u>\$ 22,376,111</u>



Children's Home Society of South Dakota  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2019

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 7,756,784	\$ 3,082,508	\$ 10,839,292	\$ 803,612	\$ 513,047	\$ 12,155,951
Payroll taxes and benefits	2,099,711	987,118	3,086,829	290,068	134,728	3,511,625
Employment costs	25,899	11,693	37,592	3,112	339	41,043
Training and conferences	18,883	60,039	78,922	7,410	398	86,730
Professional services and fees	423,598	332,118	755,716	184,353	3,943	944,012
Food	485,090	54,413	539,503	-	-	539,503
Insurance	345,000	127,204	472,204	35,142	7,485	514,831
Travel	20,486	104,623	125,109	24,018	5,941	155,068
Occupancy	453,436	197,089	650,525	39,421	3,545	693,491
Goods and supplies	177,766	549,889	727,655	179,438	497,660	1,404,753
Printing and publications	191	8,710	8,901	29,114	620,983	658,998
Equipment maintenance and licen	217,220	81,790	299,010	59,698	11,781	370,489
Bad debt	-	450	450	-	187,327	187,777
Depreciation	512,597	201,164	713,761	230,589	4,105	948,455
Other	12,344	23,936	36,280	30,408	2,627	69,315
	<u>\$ 12,549,005</u>	<u>\$ 5,822,744</u>	<u>\$ 18,371,749</u>	<u>\$ 1,916,383</u>	<u>\$ 1,993,909</u>	<u>\$ 22,282,041</u>

# Children's Home Society of South Dakota

Consolidated Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	2020	2019
<b>Operating Activities</b>		
Change in net assets	\$ 3,033,547	\$ 59,679,879
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	938,914	948,455
Gain on disposal of equipment	-	(10,168)
Loss on disposal of equipment	4,722	-
Net gain on investments	3,608,650	(3,309,581)
Change in value of beneficial interest in assets held by others	37,263	(33,915)
Change in beneficial interest in trusts	55,541	3,510
Change in discount and allowance on contributions receivable	405,764	141,696
Contributions restricted for endowment including noncash gifts	(743,852)	(43,572,707)
Contributions restricted to building project	-	(11,000,000)
Change in cash surrender value of life insurance	(37,685)	(36,164)
Change in working capital components		
Receivables	(5,180,209)	(59,604)
Prepaid expenses	(25,579)	(8,811)
Accounts payable	(325,396)	331,288
Refundable advance - Paycheck Protection Program	2,895,687	-
Accrued expenses	(198,113)	(258,007)
Annuity obligations	121	(21)
<b>Net Cash provided by Operating Activities</b>	<b>4,469,375</b>	<b>2,815,850</b>
<b>Investing Activities</b>		
Purchase of land, buildings and equipment	(434,755)	(414,480)
Contribution to community foundation, net of distributions received	(2,005)	(50)
Purchase of investments	(28,049,273)	(69,317,255)
Proceeds from sale and maturity of investments	24,504,978	12,850,574
<b>Net Cash used for Investing Activities</b>	<b>(3,981,055)</b>	<b>(56,881,211)</b>
<b>Financing Activities</b>		
Proceeds from contributions restricted for endowment	747,794	42,792,265
Proceeds from contributions restricted for investment in land, buildings and equipment	4,260	11,001,260
<b>Net Cash provided by Financing Activities</b>	<b>752,054</b>	<b>53,793,525</b>
<b>Net Change in Cash and Cash Equivalents</b>	1,240,374	(271,836)
Cash and Cash Equivalents, Beginning	14,465,943	14,737,779
Cash and Cash Equivalents, Ending	<b>\$ 15,706,317</b>	<b>\$ 14,465,943</b>

**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 Society".

**Cash and Cash Equivalents**

The Society 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 Society 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, 2020 and 2019.

**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, 2020 and 2019, the allowance was \$388,000 and \$391,000, 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 gain/(loss) 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 Society 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 Society has neither possession nor control over the assets of the trusts. At the date the Society 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 Society 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 Society; however, the Society will never receive the assets of the trusts. At the date the Society 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 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 funds are held and invested by the community foundations for the benefit of the Society, 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 Society 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.

**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, 2020 and 2019.

**Revenue and Revenue Recognition**

The Society 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.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the Society'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 Society records donated professional services at the respective fair values of the services received.

**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 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 Society 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 donor restrictions are reported in the consolidated statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated 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.

### **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 Society 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 Society 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 Society'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 Society.

**Change in Accounting Principle**

As of July 1, 2019, the Society has adopted ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). The standard clarifies and improves the scope and accounting guidance for contributions received and contributions made. This clarification provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction in addition to providing criteria for identification of conditional contributions. The Society has elected to utilize the modified prospective application method.

As of July 1, 2019, the Society adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The adoption of this standard had no significant effect on the consolidated financial statements.

The Society has adopted these standards as management believes the standards improve the usefulness and understandability of the Society's financial reporting.

**Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Reclassifications**

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



**Subsequent Events**

Management has considered subsequent events through October 28, 2020, the date that the consolidated financial statements were available to be issued, in preparing the consolidated financial statements and notes thereto.

**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:

	2020	2019
Cash and cash equivalents	\$ 7,960,311	\$ 9,275,919
Accounts receivable	1,335,853	1,149,600
Contributions, grants and contracts receivable	1,679,333	625,151
Distributions from beneficial interests in trusts	162,788	149,035
Distributions from beneficial interests in assets held by community foundations	119,213	103,432
Spending-rate distributions and appropriations	4,413,112	4,182,455
	<u>\$ 15,670,610</u>	<u>\$ 15,485,592</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 4 to 5 percent.

Board-designated endowments are considered available to the extent of the approved annual spending rate of 4 to 5 percent. Although the Society 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 \$13,522,754 and \$14,204,042 as of June 30, 2020 and 2019, respectively. In addition to board designated endowments, the board has designated certain investments which were \$7,652,410 and \$5,823,666 as of June 30, 2020 and 2019, 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 \$4,409,668 and \$4,654,526 as of June 30, 2020 and 2019, 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, 2020 and 2019 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 Society (Note 16).

The following summarizes designated cash and investments at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents		
Self-funded insurance	\$ 436,376	\$ 1,145,271
Depreciation	3,973,292	3,509,255
Investments		
Depreciation	1,367,469	1,350,000
Operating reserve	5,848,538	3,785,542
Deferred compensation	436,402	688,124
Endowment	<u>13,522,754</u>	<u>14,204,042</u>
	<u>\$ 25,584,831</u>	<u>\$ 24,682,234</u>

**Note 4 - Contributions, Grants and Contracts Receivable**

Contributions, grants, and contracts receivable at June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Endowment	\$ 547,069	\$ 549,005
Children's Inn	5,014,125	23,116
Government agencies	242,892	189,494
United Way - Children's Inn and Bright Start	435,316	429,666
Total contributions, grants and contracts receivable	<u>6,239,402</u>	<u>1,191,281</u>
Less		
Discount to net present value at 5% to 6%	(426,434)	(17,670)
Allowance for uncollectible pledges	<u>(388,000)</u>	<u>(391,000)</u>
Net contributions, grants and contracts receivable	<u>\$ 5,424,968</u>	<u>\$ 782,611</u>

At June 30, 2020 and 2019, one and three donors accounted for approximately 80% and 43%, respectively, of total contributions, grants and contracts receivable.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2020.

	<u>Due by June 30</u>	
2021		\$ 1,792,596
2022		1,056,406
2023		1,001,200
2024		1,001,200
2025		<u>1,388,000</u>
		<u>\$ 6,239,402</u>

**Note 5 - Investments**

The following summarizes investments by major investment type at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Without Donor Restrictions</b>		
Cash equivalents and money market funds	\$ 2,502,570	\$ 482,782
Certificates of deposit	1,429,505	1,819,657
Corporate debt securities	290,153	128,671
Mutual funds - equity securities	13,131,044	13,641,777
Mutual funds - debt securities	3,666,649	3,817,164
Common stock	155,242	137,656
	<u>21,175,163</u>	<u>20,027,707</u>
<b>With Donor Restrictions</b>		
Cash equivalents and money market funds	8,855,731	13,813,124
Certificates of deposit	9,450,645	6,556,017
State and municipal government obligations	293,877	293,153
Corporate debt securities	1,743,378	2,428,332
Mutual funds - equity securities	65,846,060	64,417,501
Mutual funds - debt securities	17,258,532	17,151,917
Preferred stock	12,605	12,595
	<u>103,460,828</u>	<u>104,672,639</u>
	<u>\$ 124,635,991</u>	<u>\$ 124,700,346</u>

Investment income from investments is recorded net of related investment fees of \$298,845 and \$246,317 for the years ended June 30, 2020 and 2019, respectively.

**Note 6 - Beneficial Interest in Trusts**

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2020 and 2019:

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Beneficial interest in perpetual trusts				
Williamson Trust	\$ -	\$ 141,281	\$ 141,281	\$ 147,023
A. Coe Frankhauser Charitable Trust	-	104,819	104,819	92,221
Thelma Serr Charitable Trust	-	307,157	307,157	311,660
Hayward Memorial Trust	-	132,323	132,323	133,474
Beach Memorial Trust	-	320,173	320,173	334,470
Beneficial interest in charitable trusts				
Edith Siegrist Trust	-	184,911	184,911	190,537
Didier Charitable Annuity Trust	-	126,570	126,570	109,102
Verne and Bonnie Anderson Trust	-	1,659,589	1,659,589	1,713,877
	<u>\$ -</u>	<u>\$ 2,976,823</u>	<u>\$ 2,976,823</u>	<u>\$ 3,032,364</u>

The Society 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 - Donated Professional Services and Materials**

The Society received donated professional services and materials as follows during the years ended June 30, 2020 and 2019:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
<u>June 30, 2020</u>				
Advertising and printing	\$ -	\$ -	\$ 476,991	\$ 476,991
Events	-	-	226,848	226,848
Professional services	4,288	18,500	-	22,788
Goods and supplies	<u>383,472</u>	<u>-</u>	<u>250</u>	<u>383,722</u>
	<u>\$ 387,760</u>	<u>\$ 18,500</u>	<u>\$ 704,089</u>	<u>\$ 1,110,349</u>
<u>June 30, 2019</u>				
Advertising and printing	\$ -	\$ -	\$ 608,122	\$ 608,122
Events	-	-	180,548	180,548
Professional services	850	24,971	500	26,321
Goods and supplies	<u>463,503</u>	<u>-</u>	<u>2,267</u>	<u>465,770</u>
	<u>\$ 464,353</u>	<u>\$ 24,971</u>	<u>\$ 791,437</u>	<u>\$ 1,280,761</u>

**Note 8 - Cash Surrender Value of Life Insurance**

The Society 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 Society are recorded as life insurance expense. The face values of the policies were approximately \$2,216,000 and \$2,218,000 at June 30, 2020 and 2019. The policies had cash values of \$1,046,724 and \$1,009,039 at June 30, 2020 and 2019, respectively. Investments in cash surrender value of life insurance are carried at their contract amount.

## Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

### Note 9 - Non-Recognized Funds Held by Community Foundations

A number of designated funds which benefit the Society are maintained at the Sioux Falls Area Community Foundation (SFACF). These funds were established as a result of gifts by donors on the Society's behalf. The Society is the sole beneficiary of these funds; however, SFACF has been given variance power by the donors. Therefore, the Society 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, 2020 and 2019, and the annual distributions for the years ended June 30, 2020 and 2019:

	2020		2019	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 95,207	\$ 3,632	\$ 94,406	\$ 3,523
Dorothy Christopherson Fund	47,727	1,821	47,326	1,766
Children's Home Society Endowment	938,198	35,765	930,179	34,678
Lou & Helen Madsen Fund	508,742	19,406	504,460	18,824
Larsen Memorial Fund	141,169	5,385	139,981	5,224
Raymond Daugaard Memorial Fund	71,436	2,725	70,834	2,643
Madden Family Fund	88,558	4,000	88,331	5,725
Children's Inn Endowment	74,155	2,593	73,307	2,692
Madsen House Endowment	107,307	-	102,313	-
Madsen Adoption and Foster Care Endowment	37,215	1,420	36,902	1,377
Excellence in Caring Endowment	31,630	1,233	31,380	1,192
Child Advocacy Center Endowment	21,458	819	21,278	794
Music Fund	17,340	661	17,194	642
Creative Arts	34,103	208	32,746	1,127
Carmody Family Endowment	14,297	545	14,176	529
Child's Voice Endowment	13,573	518	13,459	502
Amundson Family Endowment	41,352	1,385	36,004	1,343
The Sunshyne Fund	5,725	218	5,676	212
Solveig Steen Endowment	142,822	5,431	145,233	5,180
Elvira Larson Endowment	11,252	430	11,158	418
Links to Literacy Endowment	22,727	870	22,573	870
Profilet Endowment	70,558	2,707	70,084	2,707
	<u>\$ 2,536,551</u>	<u>\$ 91,772</u>	<u>\$ 2,509,000</u>	<u>\$ 91,968</u>

In addition, the South Dakota Community Foundation has funds totaling \$683,710 and \$657,879 at June 30, 2020 and 2019, respectively, for which the Society is the beneficiary. The Society does not recognize its interest in these funds until any distributions are received. Distributions received totaled \$25,253 and \$24,344 for the years ended June 30, 2020 and 2019, respectively.

**Note 10 - Land, Buildings, and Equipment**

The following summarizes land, buildings and equipment at June 30, 2020 and 2019:

	2020	2019
Land and improvements	\$ 2,129,241	\$ 2,115,914
Buildings and improvements	19,206,830	19,184,908
Equipment and fixtures	4,520,090	4,226,140
Vehicles	730,616	726,698
Construction in progress	56,001	-
	<u>26,642,778</u>	<u>26,253,660</u>
Less accumulated depreciation	<u>(14,119,476)</u>	<u>(13,224,953)</u>
	<u>\$ 12,523,302</u>	<u>\$ 13,028,707</u>

**Note 11 - 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 Society 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 Society develops inputs using the best information available in the circumstances.

# Children's Home Society of South Dakota

## Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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

	2020	2019
<b>Assets</b>		
Certificates of deposit	\$ 10,880,150	\$ 8,375,674
State and municipal government obligations	293,877	293,153
Corporate debt securities	2,033,531	2,557,003
Mutual funds - equity securities	78,977,104	78,059,278
Mutual funds - debt securities	20,925,181	20,969,081
Common stock	155,242	137,656
Preferred stock	12,605	12,595
Beneficial interest in trusts	2,976,823	3,032,364
Beneficial interest in assets held by community foundations	3,322,927	3,358,185
	\$ 119,577,440	\$ 116,794,989
<b>Liabilities</b>		
Annuity obligations	\$ 12,306	\$ 12,185

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
Certificates of deposit	\$ -	\$ 10,880,150	\$ -	\$ 10,880,150
State and municipal government obligations	-	293,877	-	293,877
Corporate debt securities	-	2,033,531	-	2,033,531
Mutual funds - equity securities	78,977,104	-	-	78,977,104
Mutual funds - debt securities	20,925,181	-	-	20,925,181
Common stock	155,242	-	-	155,242
Preferred stock	12,605	-	-	12,605
Total investments valued at fair value	100,070,132	13,207,558	-	113,277,690
Beneficial interest in trusts	-	-	2,976,823	2,976,823
Beneficial interest in assets held by community foundations	-	-	3,322,927	3,322,927
	\$ 100,070,132	\$ 13,207,558	\$ 6,299,750	\$ 119,577,440
<b>Liabilities</b>				
Annuity obligations	\$ -	\$ -	\$ 12,306	\$ 12,306



# Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The related fair values of these assets and liabilities are determined as follows at June 30, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Certificates of deposit	\$ -	\$ 8,375,674	\$ -	\$ 8,375,674
State and municipal government obligations	-	293,153	-	293,153
Corporate debt securities	-	2,557,003	-	2,557,003
Mutual funds - equity securities	78,059,278	-	-	78,059,278
Mutual funds - debt securities	20,969,081	-	-	20,969,081
Common stock	137,656	-	-	137,656
Preferred stock	12,595	-	-	12,595
Total investments valued at fair value	99,178,610	11,225,830	-	110,404,440
Beneficial interest in trusts	-	-	3,032,364	3,032,364
Beneficial interest in assets held by community foundations	-	-	3,358,185	3,358,185
	\$ 99,178,610	\$ 11,225,830	\$ 6,390,549	\$ 116,794,989
 Liabilities				
Annuity obligations	\$ -	\$ -	\$ 12,185	\$ 12,185

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, beneficial interests in assets held by community foundations, and annuity obligations are estimated at the present value of the expected future cash flows.

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

	Beneficial Interest in	
	Community Foundations	Trusts
Balance, June 30, 2018	\$ 2,437,783	\$ 3,035,874
Contribution	886,487	-
Adjustments to fair market value, net of distributions	33,915	(3,510)
Balance, June 30, 2019	3,358,185	3,032,364
Contribution	2,005	-
Adjustments to fair market value, net of distributions	(37,263)	(55,541)
Balance, June 30, 2020	\$ 3,322,927	\$ 2,976,823

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

	Annuity Obligations
Balance, June 30, 2018	\$ 12,206
New annuities, net of settled liabilities	-
Changes in the value of annuity obligations	<u>(21)</u>
Balance, June 30, 2019	12,185
New annuities, net of settled liabilities	-
Changes in the value of annuity obligations	<u>121</u>
Balance, June 30, 2020	<u><u>\$ 12,306</u></u>

#### **Note 12 - Paycheck Protection Program (PPP) Loan**

The Society was granted a \$2,895,687 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Society is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Society has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Society maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Society will be required to repay any remaining balance, plus interest accrued at 1 percent in monthly payments commencing in November 17, 2020, principal and interest payments will be required through the maturity date April 17, 2022.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

**Note 13 - Net Assets with Donor Restrictions**

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

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose or Passage of Time		
Various Children's Home Society programs	\$ 1,483,423	\$ 2,036,557
Child's Voice and Child Advocacy Center	4,023	5,999
Front Line staff salaries and benefits	4,149,815	4,100,404
Children's Inn programs	6,686,182	1,678,342
Building maintenance	324	906
Black Hills programs	1,406,523	1,409,645
Creative arts	1,142	1,949
Advocacy and prevention	536,090	529,158
Children's Inn facility	11,346,985	11,135,295
United Way and other program expenses	980,620	947,740
	<u>26,595,127</u>	<u>21,845,995</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 17)	<u>7,782,389</u>	<u>10,045,351</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Various Children's Home Society programs	28,325,816	27,923,829
Child's Voice and Child Advocacy Center	3,095,203	2,893,247
Front Line staff salaries and benefits	40,000,000	40,000,000
Children's Inn programs	1,187,794	1,142,319
Building maintenance	293,647	293,647
Black Hills programs	412,433	387,433
Creative Arts	1,333,936	1,327,686
Mark Amundson Memorial	227,758	217,758
Advocacy and prevention	1,778,488	1,758,663
Adoption	367,522	321,472
Restricted cash	6,190	450
Contributions and bequests receivable, net - permanently restricted to general endowment	159,896	156,336
	<u>77,188,683</u>	<u>76,422,840</u>
Not subject to spending policy or appropriation		
Beneficial interest in trusts	873,430	885,374
Beneficial interest in community foundations	3,221,049	3,218,649
	<u>4,094,479</u>	<u>4,104,023</u>
	<u>\$ 115,660,678</u>	<u>\$ 112,418,209</u>

## Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019:

	2020	2019
Expiration of time restriction	\$ -	\$ 187,327
Satisfaction of purpose and/or time restrictions		
Black Hills programs	46,851	36,694
Children's Inn programs	494,136	485,689
Advocacy and prevention	270	-
Various Children's Home Society programs	969,466	1,004,438
	1,510,723	1,714,148
Restricted-purpose spending rate distributions and appropriations (Note 16)	1,855,410	1,786,396
	\$ 3,366,133	\$ 3,500,544

### Note 14 - Scholarship Contributions

The Society 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 \$146,000 and \$193,000 higher for 2020 and 2019, respectively.

### Note 15 - Revenue from Governmental Units

The Society 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 Society's programs and activities.

**Note 16 - Employee Benefit Plans**

The Society 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 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. Retirement plan contributions for the years ended June 30, 2020 and 2019 were 8% or \$754,912 and \$719,036, respectively.

The Society has 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 Society is accruing the estimated net present value of the required payments at the earliest dates in which the benefits vest. Four of the plans are 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, 2020 and 2019, \$343,769 and \$546,538, respectively, has been accrued and recorded as a liability in the accompanying consolidated financial statements. One of these agreements was paid out to retired employee during 2020. The Society owns life insurance policies on one of these individuals. The Society will receive the death benefits under the terms of the agreement.

The Society sponsors a self-insured health plan and a self-insured dental plan for all its employees who meet eligibility requirements. A portion of the cost of the plans is withheld from the participating employee's wages and the remainder is paid by the Society. An estimated liability for health and dental claims incurred but not paid at June 30, 2020 and 2019, of approximately \$5,000 and \$136,000, respectively, has been accrued based on past claims experience and management's assessment of future claims. The self-insured health plan was terminated January 1, 2020 and the Society has moved to a traditional health insurance plan for employees.

**Note 17 - Endowment Funds**

The Society'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.

# Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

## Interpretation of Relevant Law

The Society'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 as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society 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 Society 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 Society 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 Society; and (7) the investment policies of the Society.

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	-	28,491,902	28,491,902
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	-	1,187,794	1,187,794
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	-	3,738,518	3,738,518
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	-	642,234	642,234
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
	\$ 13,522,754	\$ 84,971,072	\$ 98,493,826

# Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

The following summarizes endowment net assets at June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 14,204,042	\$ -	\$ 14,204,042
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	-	28,080,615	28,080,615
Child's Voice and Child Advocacy Center	-	2,893,247	2,893,247
Front Line staff salaries and benefits	-	40,000,000	40,000,000
Children's Inn programs	-	1,142,319	1,142,319
Building maintenance	-	293,647	293,647
Black Hills programs	-	387,433	387,433
Creative Arts	-	1,327,686	1,327,686
Mark Amundson Memorial	-	217,758	217,758
Advocacy and prevention	-	1,758,663	1,758,663
Adoption	-	321,472	321,472
Accumulated investment gains			
Various Children's Home Society programs	-	5,452,008	5,452,008
Front line staff	-	504,728	504,728
Child's Voice and Child Advocacy Center	-	1,923,128	1,923,128
Children's Inn programs	-	729,622	729,622
Building maintenance	-	418,446	418,446
Black Hills programs	-	157,506	157,506
Creative Arts	-	461,414	461,414
Mark Amundson Memorial	-	38,337	38,337
Advocacy and prevention	-	332,866	332,866
Adoption	-	27,296	27,296
	\$ 14,204,042	\$ 86,468,191	\$ 100,672,233

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 Society to retain as a fund of perpetual duration, (i.e., underwater endowments). The Society has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2020 and 2019, there were no deficiencies of this nature reported in net assets with donor restrictions.

## Investment Spending Policies

The Society has adopted investment and spending policies for its endowment fund that attempt to provide the Society a predictable funding stream for its programs while protecting the purchasing power of the endowment funds. The Society, 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 Society 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, 2020 and 2019

The Board of Directors of the Society may appropriate for expenditure or accumulate so much of the endowment fund as the Society 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, 2020 and 2019.

The following summarizes the change in endowment net assets for the years ended June 30, 2020 and 2019:

June 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 14,204,042	\$ 86,468,191	\$ 100,672,233
Investment return, net	(81,916)	(397,726)	(479,642)
Contributions and bequests	54,732	756,017	810,749
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,855,410)	(1,855,410)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(654,104)	-	(654,104)
Endowment net assets, end of year	\$ 13,522,754	\$ 84,971,072	\$ 98,493,826
June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 14,188,907	\$ 43,547,398	\$ 57,736,305
Investment return, net	629,729	3,940,538	4,570,267
Contributions and bequests	26,169	40,766,651	40,792,820
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,786,396)	(1,786,396)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(640,763)	-	(640,763)
Endowment net assets, end of year	\$ 14,204,042	\$ 86,468,191	\$ 100,672,233



**Note 18 - Commitments and Contingencies**

Property acquired with federal grants is considered owned by the Society 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 \$1,915,197 and \$2,031,106 at June 30, 2020 and 2019, 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 \$1,242,449 and \$1,316,913 at June 30, 2020 and 2019, respectively, and is included in the reversionary interest amount above.

The Society has entered into an agreement for architectural design relating to the construction of the new Children's Inn Facility. Construction is scheduled to begin in 2021 and the remaining commitment on the contract as of June 30, 2020 is \$447,784. In addition, the Society has entered into an agreement for employee leadership training through 2022. Remaining commitment related to the training was \$296,000 at June 30, 2020. The Society also entered into a three-year contract to upgrade software. The remaining commitment on the agreement was \$79,725 at June 30, 2020.

**COVID-19 Pandemic**

The Society's consolidated financial statements include adjustments to fair value resulting from declines in the market associated with the world-wide coronavirus pandemic. The Society is closely monitoring the investment portfolio, operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these consolidated financial statements, the full impact to the Society's financial position is not known.



Supplementary Information  
June 30, 2020 and 2019

# Children's Home Society of South Dakota

Children's Home Society of South Dakota  
Consolidating Statement of Financial Position  
June 30, 2020

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents				
Undesignated	\$ 5,585,887	\$ 2,105,655	\$ -	\$ 7,691,542
Designated	4,102,207	307,461	-	4,409,668
Restricted	3,023,387	581,720	-	3,605,107
	<u>12,711,481</u>	<u>2,994,836</u>	-	<u>15,706,317</u>
Accounts receivable	1,365,618	96,151	-	1,461,769
Contributions, grants and contracts receivable, net	678,208	4,746,760	-	5,424,968
Due from Children's Home Foundation	70,280	-	(70,280)	-
Prepaid expenses	388,245	1,349	-	389,594
Investments	4,192,773	120,443,218	-	124,635,991
Beneficial interest in trusts	997,061	1,979,762	-	2,976,823
Beneficial interest in assets held by community foundations	-	3,322,927	-	3,322,927
Cash surrender value of life insurance	-	1,046,724	-	1,046,724
Land, buildings and equipment, net	12,521,157	2,145	-	12,523,302
	<u>\$ 32,924,823</u>	<u>\$ 134,633,872</u>	<u>\$ (70,280)</u>	<u>\$ 167,488,415</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 215,643	\$ 12,802	\$ -	\$ 228,445
Accrued expenses	2,251,978	184,075	-	2,436,053
Refundable advance - PPP	2,895,687	-	-	2,895,687
Annuity obligations	-	12,306	-	12,306
Due to Children's Home Society	-	70,280	(70,280)	-
	<u>5,363,308</u>	<u>279,463</u>	<u>(70,280)</u>	<u>5,572,491</u>
<b>Net Assets</b>				
Without donor restrictions				
Undesignated	17,709,261	2,961,154	-	20,670,415
Board designated	7,393,910	18,190,921	-	25,584,831
With donor restrictions	2,458,344	113,202,334	-	115,660,678
	<u>27,561,515</u>	<u>134,354,409</u>	-	<u>161,915,924</u>
	<u>\$ 32,924,823</u>	<u>\$ 134,633,872</u>	<u>\$ (70,280)</u>	<u>\$ 167,488,415</u>

Children's Home Society of South Dakota  
Consolidating Statement of Activities  
Year Ended June 30, 2020

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
<b>Revenue, Gains and Other Support</b>				
Child care	\$ 9,647,699	\$ -	\$ -	\$ 9,647,699
Tuition	3,200,456	-	-	3,200,456
Contributions and bequests	249,507	7,018,962	-	7,268,469
Support from government agencies	2,656,791	-	-	2,656,791
Children's Home Foundation	1,422,114	-	(1,422,114)	-
Children's Inn contributions	501,552	-	-	501,552
United Way support	873,100	-	-	873,100
Interest on cash and cash equivalents	-	26,704	-	26,704
Gifts-in-kind	307,237	803,112	-	1,110,349
Increase in cash surrender value of life insurance	-	37,779	-	37,779
Distributions from perpetual trusts	36,671	-	-	36,671
Net gain on investments carried at fair value	(44,905)	(3,563,745)	-	(3,608,650)
Distributions from and change in value of beneficial interests in assets held by others	-	(37,263)	-	(37,263)
Investment income	202,128	3,303,332	-	3,505,460
Change in value of beneficial interest in trusts	13,043	(68,584)	-	(55,541)
Change in value of annuity obligations	-	(1,751)	-	(1,751)
Other	273,033	-	(25,200)	247,833
<b>Total revenue, gains and other support</b>	<b>19,338,426</b>	<b>7,518,546</b>	<b>(1,447,314)</b>	<b>25,409,658</b>
<b>Expenses</b>				
<b>Program services</b>				
Residential and education	12,396,933	-	-	12,396,933
Community based services	5,751,267	23,161	-	5,774,428
Contribution to Children's Home Society	-	1,422,114	(1,422,114)	-
<b>Total program expenses</b>	<b>18,148,200</b>	<b>1,445,275</b>	<b>(1,422,114)</b>	<b>18,171,361</b>
<b>Supporting services expenses</b>				
General and administrative	2,550,943	57,584	-	2,608,527
Fundraising and development	158,889	1,462,534	(25,200)	1,596,223
<b>Total supporting services expenses</b>	<b>2,709,832</b>	<b>1,520,118</b>	<b>(25,200)</b>	<b>4,204,750</b>
<b>Total expenses</b>	<b>20,858,032</b>	<b>2,965,393</b>	<b>(1,447,314)</b>	<b>22,376,111</b>
Change in Net Assets	(1,519,606)	4,553,153	-	3,033,547
Net Assets, Beginning	29,081,121	129,801,256	-	158,882,377
Net Assets, Ending	<u>\$ 27,561,515</u>	<u>\$ 134,354,409</u>	<u>\$ -</u>	<u>\$ 161,915,924</u>

Children's Home Society of South Dakota  
Consolidating Statement of Cash Flows  
Year Ended June 30, 2020

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
<b>Operating Activities</b>				
Change in net assets	\$ (1,519,606)	4,553,153	\$ -	\$ 3,033,547
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	937,274	1,640	-	938,914
Loss on disposal of equipment	4,722	-	-	4,722
Net gain on investments	44,905	3,563,745	-	3,608,650
Change in value of beneficial interest in assets held by others	-	37,263	-	37,263
Change in beneficial interest in trusts	(13,043)	68,584	-	55,541
Change in discount and allowance on contributions receivable	-	405,764	-	405,764
Contributions restricted for endowment including noncash gifts	(144,087)	(599,765)	-	(743,852)
Change in cash surrender value of life insurance	-	(37,685)	-	(37,685)
Change in working capital components				
Receivables	(314,040)	(4,917,834)	51,665	(5,180,209)
Prepaid expenses	(25,545)	(34)	-	(25,579)
Accounts payable	(327,682)	2,286	-	(325,396)
Refundable advance - PPP	2,895,687	-	-	2,895,687
Accrued expenses	(217,393)	19,280	-	(198,113)
Annuity obligations	-	121	-	121
Due to Children's Home Society	-	51,665	(51,665)	-
<b>Net Cash provided by Operating Activities</b>	<b>1,321,192</b>	<b>3,148,183</b>	<b>-</b>	<b>4,469,375</b>
<b>Investing Activities</b>				
Purchase of land, buildings and equipment	(434,755)	-	-	(434,755)
Contribution to community foundation, net of distributions received	-	(2,005)	-	(2,005)
Purchase of investments	(1,219,188)	(26,830,085)	-	(28,049,273)
Proceeds from sale and maturity of investments	1,309,522	23,195,456	-	24,504,978
<b>Net Cash used for Investing Activities</b>	<b>(344,421)</b>	<b>(3,636,634)</b>	<b>-</b>	<b>(3,981,055)</b>
<b>Financing Activities</b>				
Proceeds from contributions restricted for endowment	144,087	603,707	-	747,794
Proceeds from contributions restricted for investment in land, buildings and equipment	-	4,260	-	4,260
<b>Net Cash provided by Financing Activities</b>	<b>144,087</b>	<b>607,967</b>	<b>-</b>	<b>752,054</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>1,120,858</b>	<b>119,516</b>	<b>-</b>	<b>1,240,374</b>
Cash and Cash Equivalents, Beginning	11,590,623	2,875,320	-	14,465,943
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 12,711,481</b>	<b>2,994,836</b>	<b>\$ -</b>	<b>\$ 15,706,317</b>