



Consolidated Financial Statements
June 30, 2019 and 2018

Children's Home Society of South Dakota

Children's Home Society of South Dakota

Table of Contents
June 30, 2019 and 2018

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	33
Consolidating Statement of Activities	34
Consolidating Statement of Cash Flows	35



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, 2019 and 2018, 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 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 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Society has adopted the provisions of Financial Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit-Entities*. Accordingly, the June 30, 2018 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

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 33 through 35 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 23, 2019 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 23, 2019

Children's Home Society of South Dakota
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018 (Adjusted)
Assets		
Cash and cash equivalents		
Undesignated	\$ 9,811,417	\$ 9,389,498
Designated	4,654,526	5,348,281
	14,465,943	14,737,779
Accounts receivable	1,337,883	1,298,004
Contributions, grants and contracts receivable, net	782,611	1,011,837
Prepaid expenses	364,015	355,204
Investments	124,700,346	64,924,084
Beneficial interest in trusts	3,032,364	3,035,874
Beneficial interest in assets held by community foundations	3,358,185	2,437,783
Cash surrender value of life insurance	1,009,039	972,875
Land, buildings and equipment, net	13,028,707	13,552,514
	\$ 162,079,093	\$ 102,325,954
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 550,365	\$ 219,077
Accrued expenses	2,634,166	2,892,173
Annuity obligations	12,185	12,206
Total liabilities	3,196,716	3,123,456
Net Assets		
Without donor restrictions		
Undesignated	21,781,934	21,891,561
Board designated	24,682,234	24,109,667
With donor restrictions	112,418,209	53,201,270
Total net assets	158,882,377	99,202,498
	\$ 162,079,093	\$ 102,325,954

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			
Child care	\$ 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 Activities
Year Ended June 30, 2018

	2018 (Adjusted)		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenue, Gains and Other Support			
Child care	\$ 10,162,373	\$ -	\$ 10,162,373
Tuition	3,213,062	-	3,213,062
Contributions and bequests	1,845,422	1,975,966	3,821,388
Support from government agencies	2,356,250	-	2,356,250
Children's Inn contributions	-	616,979	616,979
United Way support	-	879,840	879,840
Interest on cash and cash equivalents	18,728	-	18,728
Gifts-in-kind	596,803	-	596,803
Increase in cash surrender value of life insurance	39,751	-	39,751
Distributions from perpetual trusts	44,550	-	44,550
Net gain on investments carried at fair value	1,077,016	2,775,032	3,852,048
Distributions from and change in value of beneficial interests in assets held by others	(190)	52,098	51,908
Investment income	321,060	616,444	937,504
Change in value of beneficial interest in trusts	-	(207,269)	(207,269)
Change in value of annuity obligations	11,718	-	11,718
Other state support	-	104,834	104,834
Other	228,762	-	228,762
Donor restriction redirection	43,805	(43,805)	-
Net asset released from restriction pursuant to endowment spending-rate distribution formula	1,642,659	(1,642,659)	-
Net assets released from restrictions - other	1,923,365	(1,923,365)	-
Total revenue, gains and other support	<u>23,525,134</u>	<u>3,204,095</u>	<u>26,729,229</u>
Expenses			
Program services expense			
Residential and education	12,573,280	-	12,573,280
Community based services	5,699,082	-	5,699,082
Total program services expense	<u>18,272,362</u>	<u>-</u>	<u>18,272,362</u>
Supporting services expense			
General and administrative	1,780,100	-	1,780,100
Fundraising and development	1,425,906	-	1,425,906
Total supporting services expense	<u>3,206,006</u>	<u>-</u>	<u>3,206,006</u>
Total expenses	<u>21,478,368</u>	<u>-</u>	<u>21,478,368</u>
Change in Net Assets	2,046,766	3,204,095	5,250,861
Net Assets, Beginning	43,954,462	49,997,175	93,951,637
Net Assets, Ending	<u>\$ 46,001,228</u>	<u>\$ 53,201,270</u>	<u>\$ 99,202,498</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 licenses	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 Statement of Functional Expenses
Year Ended June 30, 2018

	Program Expenses			General and Administrative	Fundraising and Development	Total
	Residential and Education	Community Based Services	Total			
Salaries	\$ 7,934,480	\$ 3,106,762	\$ 11,041,242	\$ 765,977	\$ 508,025	\$ 12,315,244
Payroll taxes and benefits	2,042,662	960,725	3,003,387	276,801	130,584	3,410,772
Employment costs	20,676	12,559	33,235	3,752	117	37,104
Training and conferences	15,294	57,204	72,498	17,011	530	90,039
Professional services and fees	430,914	449,570	880,484	120,640	4,069	1,005,193
Food	479,413	51,875	531,288	-	-	531,288
Insurance	337,183	135,741	472,924	33,312	1,963	508,199
Travel	25,772	109,322	135,094	19,657	5,449	160,200
Occupancy	465,357	201,532	666,889	37,236	3,433	707,558
Goods and supplies	189,397	339,148	528,545	192,475	337,457	1,058,477
Printing and publications	-	4,728	4,728	16,450	233,029	254,207
Equipment maintenance and licenses	108,390	36,556	144,946	58,153	11,712	214,811
Bad debt	-	19,432	19,432	-	185,482	204,914
Depreciation	520,333	186,892	707,225	211,821	3,550	922,596
Other	3,409	27,036	30,445	26,815	506	57,766
	<u>\$ 12,573,280</u>	<u>\$ 5,699,082</u>	<u>\$ 18,272,362</u>	<u>\$ 1,780,100</u>	<u>\$ 1,425,906</u>	<u>\$ 21,478,368</u>

Children's Home Society of South Dakota

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 59,679,879	\$ 5,250,861
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	948,455	922,596
Gain on disposal of equipment	(10,168)	(685)
Net gain on investments	(3,309,581)	(3,852,048)
Change in value of beneficial interest in assets held by others	(33,915)	(51,908)
Change in beneficial interest in trusts	3,510	207,269
Change in discount and allowance on contributions receivable	141,696	180,849
Contributions restricted for endowment including noncash gifts	(43,572,707)	(192,456)
Contributions restricted to building project	(11,000,000)	-
Change in cash surrender value of life insurance	(36,164)	(39,751)
Change in working capital components		
Receivables	(59,604)	240,153
Prepaid expenses	(8,811)	(27,761)
Accounts payable	331,288	94,037
Accrued expenses	(258,007)	76,495
Annuity obligations	(21)	(14,623)
Net Cash provided by Operating Activities	2,815,850	2,793,028
Investing Activities		
Purchase of land, buildings and equipment	(414,480)	(956,999)
Contribution to community foundation, net of distributions received	(50)	(200)
Purchase of investments	(69,317,255)	(21,944,888)
Proceeds from sale and maturity of investments	12,850,574	19,806,991
Net Cash used for Investing Activities	(56,881,211)	(3,095,096)
Financing Activities		
Proceeds from contributions restricted for endowment	42,792,265	370,662
Proceeds from contributions restricted for investment in land, buildings and equipment	11,001,260	105
Net Cash provided by Financing Activities	53,793,525	370,767
Net Change in Cash and Cash Equivalents	(271,836)	68,699
Cash and Cash Equivalents, Beginning	14,737,779	14,669,080
Cash and Cash Equivalents, Ending	\$ 14,465,943	\$ 14,737,779

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, 2019 and 2018.

Investments

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

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 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, 2019 and 2018, the allowance was \$391,000 and \$208,673, 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.

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 statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the 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 statements of financial position, with trust distributions and changes in fair value recognized in the 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 statements of activities, and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. 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 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 statements of financial position, with trust distributions and changes in fair value recognized in the 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 \$500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the 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, 2019 and 2018.

Revenue and Revenue Recognition

Revenue is recognized when earned. 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 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 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 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 statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. 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 and wages, benefits, payroll taxes, and marketing expenses are allocated on the basis of estimates of time and effort. Maintenance and dining 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 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.

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.

Change in Accounting Policy

As of July 1, 2018, the Society adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Society's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure to improve a financial statement user's ability to assess the Society's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single occasion. The Society has adopted this standard as management believes the standard improves the usefulness and understandability of the Society's financial reporting.

The Society has adopted this standard as management believes the standard improves the usefulness and understandability of the Society's financial reporting.

Subsequent Events

Management has considered subsequent events through October 23, 2019, the date that the financial statements were available to be issued, in preparing the 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 statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 9,275,919	\$ 10,023,432
Accounts receivable	1,149,600	1,236,796
Contributions, grants and contracts receivable	625,151	605,426
Distributions from beneficial interests in trusts	149,035	168,955
Distributions from beneficial interests in assets held by community foundations	103,432	112,851
Spending-rate distributions and appropriations	<u>4,182,455</u>	<u>1,893,639</u>
	<u>\$ 15,485,592</u>	<u>\$ 14,041,099</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 \$14,204,042 and \$14,188,907 as of June 30, 2019 and 2018, respectively. In addition to board designated endowments, the board has designated certain investments which were \$5,823,666 and \$4,572,480 as of June 30, 2019 and 2018, 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 \$4,654,526 and \$5,348,281 as of June 30, 2019 and 2018, 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, 2019 and 2018 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 15)

The following summarizes designated cash and investments at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents		
Self-funded insurance	\$ 1,145,271	\$ 1,139,820
Depreciation	3,509,255	4,208,461
Investments:		
Depreciation	1,350,000	247,574
Operating reserve	3,785,542	3,622,497
Deferred compensation	688,124	702,408
Endowment	<u>14,204,042</u>	<u>14,188,907</u>
	<u>\$ 24,682,234</u>	<u>\$ 24,109,667</u>

Note 4 - Contributions, Grants and Contracts Receivable

Contributions, grants, and contracts receivable at June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Endowment	\$ 549,005	\$ 655,000
Children's Inn	23,116	19,645
Bequests - without donor restrictions	-	6,728
Government agencies	189,494	143,751
United Way - Children's Inn and Bright Start	429,666	453,687
Total contributions, grants and contracts receivable	<u>1,191,281</u>	<u>1,278,811</u>
Less:		
Discount to net present value at 5% to 6%	(17,670)	(58,301)
Allowance for uncollectible pledges	<u>(391,000)</u>	<u>(208,673)</u>
Net contributions, grants and contracts receivable	<u>\$ 782,611</u>	<u>\$ 1,011,837</u>

At June 30, 2019 and 2018, three donors accounted for approximately 43% and 45%, respectively, of total contributions and bequests receivable.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following summarizes scheduled receipts of contributions, grants and contracts receivable at June 30, 2019.

<u>Due by June 30:</u>	
2020	\$ 689,156
2021	56,125
2022	55,000
2023	-
2024	391,000
	<u>\$ 1,191,281</u>

Note 5 - Investments

The following summarizes investments by major investment type at June 30, 2019 and 2018:

	2019	2018
Without Donor Restrictions		
Cash equivalents and money market funds	\$ 482,782	\$ 633,691
Certificates of deposit	1,819,657	656,489
Corporate debt securities	128,671	67,930
Mutual funds - equity securities	13,641,777	13,690,464
Mutual funds - debt securities	3,817,164	3,576,606
Common stock	137,656	136,206
	<u>20,027,707</u>	<u>18,761,386</u>
With Donor Restrictions		
Cash equivalents and money market funds	13,813,124	1,588,883
Certificates of deposit	6,556,017	137,622
State and municipal government obligations	293,153	325,230
Corporate debt securities	2,428,332	1,690,972
Mutual funds - equity securities	64,417,501	32,147,895
Mutual funds - debt securities	17,151,917	8,140,318
Common stock	-	2,101,072
Preferred stock	12,595	30,706
	<u>104,672,639</u>	<u>46,162,698</u>
	<u>\$ 124,700,346</u>	<u>\$ 64,924,084</u>

Investment income from investments is recorded net of related investment fees of \$246,317 and \$186,761 for the years ended June 30, 2019 and 2018, respectively.

Note 6 - Beneficial Interest in Trusts

The following summarizes the carrying values of beneficial interest in trusts at June 30, 2019 and 2018:

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Beneficial interest in perpetual trusts				
Williamson Trust	\$ -	\$ 147,023	\$ 147,023	\$ 148,501
A. Coe Frankhauser Charitable Trust	-	92,221	92,221	84,582
Thelma Serr Charitable Trust	-	311,660	311,660	315,315
Hayward Memorial Trust	-	133,474	133,474	130,812
Beach Memorial Trust	-	334,470	334,470	338,585
Beneficial interest in charitable trusts				
Edith Siegrist Trust	-	190,537	190,537	190,409
Didier Charitable Annuity Trust	-	109,102	109,102	110,699
Verne and Bonnie Anderson Trust	-	1,713,877	1,713,877	1,716,971
	<u>\$ -</u>	<u>\$ 3,032,364</u>	<u>\$ 3,032,364</u>	<u>\$ 3,035,874</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.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 7 - Donated Professional Services and Materials

The Society received donated professional services and materials as follows during the years ended June 30, 2019 and 2018:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</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	463,503	-	2,267	465,770
	<u>\$ 464,353</u>	<u>\$ 24,971</u>	<u>\$ 791,437</u>	<u>\$ 1,280,761</u>
<u>June 30, 2018</u>				
Advertising and printing	\$ -	\$ -	\$ 230,214	\$ 230,214
Events	-	-	111,447	111,447
Professional services	2,050	12,500	-	14,550
Goods and supplies	240,592	-	-	240,592
	<u>\$ 242,642</u>	<u>\$ 12,500</u>	<u>\$ 341,661</u>	<u>\$ 596,803</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 \$2,218,000 and \$2,221,000 at June 30, 2019 and 2018. The policies had cash values of \$1,009,039 and \$972,875 at June 30, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018, and the annual distributions for the years ended June 30, 2019 and 2018:

	2019		2018	
	Current Value	Annual Distribution	Current Value	Annual Distribution
Winona Axtel Lyon Fund	\$ 94,406	\$ 3,523	\$ 94,568	\$ 3,454
Dorothy Christopherson Fund	47,326	1,766	47,407	1,731
Children's Home Society Endowment	930,179	34,678	931,633	33,983
Lou & Helen Madsen Fund	504,460	18,824	505,325	18,452
Larsen Memorial Fund	139,981	5,224	140,221	5,121
Raymond Daugaard Memorial Fund	70,834	2,643	70,955	2,591
Madden Family Fund	88,331	5,725	90,949	4,000
Children's Inn Endowment	73,307	2,692	73,084	2,624
Madsen House Endowment	102,313	-	98,739	-
Madsen Adoption and Foster Care Endowment	36,902	1,377	36,965	1,350
Excellence in Caring Endowment	31,380	1,192	31,433	1,169
Child Advocacy Center Endowment	21,278	794	21,314	778
Music Fund	17,194	642	17,224	629
Creative Arts	32,746	1,127	31,688	1,047
Carmody Family Endowment	14,176	529	14,201	519
Child's Voice Endowment	13,459	502	13,482	492
Amundson Family Endowment	36,004	1,343	36,065	1,313
The Sunshyne Fund	5,676	212	5,686	208
Solveig Steen	145,233	5,180	140,855	4,938
Links to Literacy Endowment	22,573	870	22,639	799
Profilet Endowment	70,084	2,707	70,352	2,582
Elvira Larson Endowment	11,158	418	11,179	410
	<u>\$ 2,509,000</u>	<u>\$ 91,968</u>	<u>\$ 2,505,964</u>	<u>\$ 88,190</u>

In addition, the South Dakota Community Foundation has funds totaling \$657,879 and \$608,544 at June 30, 2019 and 2018, 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 \$24,344 and \$21,631 for the years ended June 30, 2019 and 2018, respectively.

Note 10 - Land, Buildings, and Equipment

The following summarizes land, buildings and equipment at June 30, 2019 and 2018:

	2019	2018
Land and improvements	\$ 2,115,914	\$ 2,082,854
Buildings and improvements	19,184,908	19,200,158
Equipment and fixtures	4,226,140	4,067,498
Vehicles	726,698	726,698
Construction in progress	-	91,124
	26,253,660	26,168,332
Less accumulated depreciation	(13,224,953)	(12,615,818)
	\$ 13,028,707	\$ 13,552,514

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, 2019 and 2018

Assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018 are as follows:

	2019	2018
Assets		
Certificates of deposit	\$ 8,375,674	\$ 794,111
State and municipal government obligations	293,153	325,230
Corporate debt securities	2,557,003	1,758,902
Mutual funds - equity securities	78,059,278	45,838,359
Mutual funds - debt securities	20,969,081	11,716,924
Common stock	137,656	2,237,278
Preferred stock	12,595	30,706
Beneficial interest in trusts	3,032,364	3,035,874
Beneficial interest in assets held by community foundations	3,358,185	2,437,783
	\$ 116,794,989	\$ 68,175,167
Liabilities		
Annuity obligations	\$ 12,185	\$ 12,206

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

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The related fair values of these assets and liabilities are determined as follows at June 30, 2018:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Certificates of deposit	\$ -	\$ 794,111	\$ -
State and municipal government obligations	-	325,230	-
Corporate debt securities	-	1,758,902	-
Mutual funds - equity securities	45,838,359	-	-
Mutual funds - debt securities	11,716,924	-	-
Common stock	2,237,278	-	-
Preferred stock	30,706	-	-
Total investments valued at fair value	59,823,267	2,878,243	-
Beneficial interest in trusts	-	-	3,035,874
Beneficial interest in assets held by community foundations	-	-	2,437,783
	\$ 59,823,267	\$ 2,878,243	\$ 5,473,657
 Liabilities			
Annuity obligations	\$ -	\$ -	\$ 12,206

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 2019 and 2018:

	Beneficial interest in:	
	Community Foundations	Trusts
Balance, June 30, 2017	\$ 2,385,675	\$ 3,286,949
Contribution	200	-
Adjustments to fair market value, net of distributions	51,908	(251,075)
Balance, June 30, 2018	2,437,783	3,035,874
Contribution	50	-
Adjustments to fair market value, net of distributions	920,352	(3,510)
Balance, June 30, 2019	\$ 3,358,185	\$ 3,032,364

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

	<u>Annuity Obligations</u>
Balance, June 30, 2017	\$ 26,829
New annuities, net of settled liabilities	(2,905)
Changes in the value of annuity obligations	<u>(11,718)</u>
Balance, June 30, 2018	12,206
Changes in the value of annuity obligations	<u>(21)</u>
Balance, June 30, 2019	<u><u>\$ 12,185</u></u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 12 - Net Assets with Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose or Passage of Time		
Various Children's Home Society programs	\$ 2,036,557	\$ 2,019,444
Child's Voice and Child Advocacy Center	5,999	4,622
Front Line staff salaries and benefits	4,100,404	-
Children's Inn programs	1,678,342	1,633,614
Building maintenance	906	685
Black Hills programs	1,409,645	1,285,597
Creative arts	1,949	1,411
Advocacy and prevention	529,158	520,997
Children's Inn facility	11,135,295	-
United Way and other program expenses	947,740	968,356
	<u>21,845,995</u>	<u>6,434,726</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs (Note 16)	<u>10,045,351</u>	<u>7,891,209</u>
Subject to NFP endowment spending policy and appropriation		
Various Children's Home Society programs	27,923,829	27,382,541
Child's Voice and Child Advocacy Center	2,893,247	2,548,444
Front Line staff salaries and benefits	40,000,000	-
Children's Inn programs	1,142,319	1,116,866
Building maintenance	293,647	293,647
Black Hills programs	387,433	373,683
Creative Arts	1,327,686	1,314,565
Mark Amundson Memorial	217,758	217,758
Advocacy and prevention	1,758,663	1,733,663
Adoption	321,472	269,196
Restricted cash	450	1,800
Contributions and bequests receivable, net - permanently restricted to general endowment	<u>156,336</u>	<u>404,026</u>
	<u>76,422,840</u>	<u>35,656,189</u>
Not subject to spending policy or appropriation		
Beneficial interest in trusts	885,374	886,983
Beneficial interest in community foundations	<u>3,218,649</u>	<u>2,332,163</u>
	<u>4,104,023</u>	<u>3,219,146</u>
	<u>\$ 112,418,209</u>	<u>\$ 53,201,270</u>

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018:

	2019	2018
Expiration of time restriction	\$ 187,327	\$ 177,682
Satisfaction of purpose and/or time restrictions		
Black Hills programs	36,694	28,577
Children's Inn programs	485,689	624,704
Employee retention and recruitment	-	104,834
Advocacy and prevention	-	12,578
Various Children's Home Society programs	1,004,438	974,990
	1,714,148	1,923,365
Restricted-purpose spending rate distributions and appropriations (Note 16)	1,786,396	1,642,659
	\$ 3,500,544	\$ 3,566,024

Note 13 - 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 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 \$193,000 and \$160,000 higher for 2019 and 2018, respectively.

Note 14 - 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 15 - 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, 2019 and 2018 were 8% or \$719,036 and \$695,015, 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, 2019 and 2018, \$546,538 and \$511,937, respectively, has been accrued and recorded as a liability in the accompanying financial statements. 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, 2019 and 2018, of approximately \$136,000 and \$98,000, respectively, has been accrued based on past claims experience and management's assessment of future claims.

Note 16 - 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.

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.

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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
Child's Voice and Child Advocacy Center	-	504,728	504,728
Front Line staff salaries and benefits	-	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

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following summarizes endowment net assets at June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 14,188,907	\$ -	\$ 14,188,907
Donor restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor			
Various Children's Home Society programs	-	27,788,367	27,788,367
Child's Voice and Child Advocacy Center	-	2,548,444	2,548,444
Children's Inn programs	-	1,116,866	1,116,866
Building maintenance	-	293,647	293,647
Black Hills programs	-	373,683	373,683
Creative Arts	-	1,314,565	1,314,565
Mark Amundson Memorial	-	217,758	217,758
Advocacy and prevention	-	1,733,663	1,733,663
Adoption	-	269,196	269,196
Accumulated investment gains			
Various Children's Home Society programs	-	5,443,615	5,443,615
Child's Voice and Child Advocacy Center	-	450,552	450,552
Children's Inn programs	-	662,456	662,456
Building maintenance	-	387,712	387,712
Black Hills programs	-	155,225	155,225
Creative Arts	-	453,474	453,474
Mark Amundson Memorial	-	34,455	34,455
Advocacy and prevention	-	291,837	291,837
Adoption	-	11,883	11,883
	\$ 14,188,907	\$ 43,547,398	\$ 57,736,305

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, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018.

The following summarizes the change in endowment net assets for the years ended June 30, 2019 and 2018:

<u>June 30, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>\$ 14,204,042</u>	<u>\$ 86,468,191</u>	<u>\$ 100,672,233</u>
<u>June 30, 2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 13,545,652	\$ 40,896,252	\$ 54,441,904
Investment return, net	1,063,270	3,201,892	4,265,162
Contributions and bequests	171,449	1,221,913	1,393,362
Donor restriction redirection	-	(130,000)	(130,000)
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,642,659)	(1,642,659)
Other changes			
Distribution from board-designated endowment pursuant to distribution policy	(591,464)	-	(591,464)
Endowment net assets, end of year	<u>\$ 14,188,907</u>	<u>\$ 43,547,398</u>	<u>\$ 57,736,305</u>

Note 17 - 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 \$2,031,106 and \$2,157,167 at June 30, 2019 and 2018, 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 \$1,316,913 and \$1,401,328 at June 30, 2019 and 2018, respectively, and is included in the reversionary interest amount above.

Note 18 - Adjustment Resulting from Change in Accounting Policy

As disclosed in Note 1, the Society adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of the Financial Statements of Not-For-Profit Entities*, as of July 1, 2018. As part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Society's June 30, 2018 financial statements.

The effect on the Society's statement of financial position as of June 30, 2018:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Adjusted</u>
Cash and cash equivalents			
Undesignated	\$ 10,529,318	\$ (1,139,820)	\$ 9,389,498
Designated	4,208,461	1,139,820	5,348,281
Net Assets			
Unrestricted			
Undesignated	25,218,610	(25,218,610)	-
Designated	20,782,618	(20,782,618)	-
Temporarily restricted	14,325,935	(14,325,935)	-
Permanently restricted	38,875,335	(38,875,335)	-
Without donor restrictions			
Undesignated	-	21,891,561	21,891,561
Board designated	-	24,109,667	24,109,667
With donor restrictions	-	53,201,270	53,201,270

Children's Home Society of South Dakota

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The effect on the Society's statement of activities as of June 30, 2018:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net Assets, Beginning			
Unrestricted	\$ 43,954,462	\$ (43,954,462)	\$ -
Temporarily restricted	12,244,587	(12,244,587)	-
Permanently restricted	37,752,588	(37,752,588)	-
Without donor restrictions	-	43,954,462	43,954,462
With donor restrictions	-	49,997,175	49,997,175
Net Assets, End of Year			
Unrestricted	46,001,228	(46,001,228)	-
Temporarily restricted	14,325,935	(14,325,935)	-
Permanently restricted	38,875,335	(38,875,335)	-
Without donor restrictions	-	46,001,228	46,001,228
With donor restrictions	-	53,201,270	53,201,270



Supplementary Information
June 30, 2019 and 2018

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Consolidating Statement of Financial Position
June 30, 2019

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Assets				
Cash and cash equivalents				
Undesignated	\$ 7,270,554	\$ 2,540,863	\$ -	\$ 9,811,417
Designated	4,320,069	334,457	-	4,654,526
	<u>11,590,623</u>	<u>2,875,320</u>	<u>-</u>	<u>14,465,943</u>
Accounts receivable	1,162,291	175,592	-	1,337,883
Contributions, grants and contracts receivable, net	619,160	163,451	-	782,611
Due from Children's Home Foundation	18,615	-	(18,615)	-
Prepaid expenses	362,700	1,315	-	364,015
Investments	4,328,012	120,372,334	-	124,700,346
Beneficial interest in trusts	984,018	2,048,346	-	3,032,364
Beneficial interest in assets held by community foundations	-	3,358,185	-	3,358,185
Cash surrender value of life insurance	-	1,009,039	-	1,009,039
Land, buildings and equipment, net	13,024,922	3,785	-	13,028,707
	<u>\$ 32,090,341</u>	<u>\$ 130,007,367</u>	<u>\$ (18,615)</u>	<u>\$ 162,079,093</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 539,849	\$ 10,516	\$ -	\$ 550,365
Accrued expenses	2,469,371	164,795	-	2,634,166
Annuity obligations	-	12,185	-	12,185
Due to Children's Home Society	-	18,615	(18,615)	-
	<u>3,009,220</u>	<u>206,111</u>	<u>(18,615)</u>	<u>3,196,716</u>
Net Assets				
Without donor restrictions				
Undesignated	18,910,436	2,871,498	-	21,781,934
Board designated	7,856,070	16,826,164	-	24,682,234
With donor restrictions	2,314,615	110,103,594	-	112,418,209
	<u>29,081,121</u>	<u>129,801,256</u>	<u>-</u>	<u>158,882,377</u>
	<u>\$ 32,090,341</u>	<u>\$ 130,007,367</u>	<u>\$ (18,615)</u>	<u>\$ 162,079,093</u>

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

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Revenue, Gains and Other Support				
Child care	\$ 9,185,814	\$ -	\$ -	\$ 9,185,814
Tuition	3,099,964	-	-	3,099,964
Contributions and bequests	184,039	58,597,790	-	58,781,829
Support from government agencies	2,455,047	-	-	2,455,047
Children's Home Foundation	3,402,099	-	(3,402,099)	-
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	465,382	815,379	-	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	92,032	3,217,549	-	3,309,581
Distributions from and change in value of beneficial interests in assets held by others	-	33,915	-	33,915
Investment income	268,011	1,877,459	-	2,145,470
Change in value of beneficial interest in trusts	3,701	(7,211)	-	(3,510)
Change in value of annuity obligations	-	(1,609)	-	(1,609)
Other state support	-	-	-	-
Other	286,477	-	(25,200)	261,277
Total revenue, gains and other support	20,774,916	64,614,303	(3,427,299)	81,961,920
Expenses				
Program services				
Residential and education	12,549,005	-	-	12,549,005
Community based services	5,799,569	23,175	-	5,822,744
Contribution to Children's Home Society	-	3,402,099	(3,402,099)	-
Total program expenses	18,348,574	3,425,274	(3,402,099)	18,371,749
Supporting services expenses				
General and administrative	1,864,683	51,700	-	1,916,383
Fundraising and development	345,120	1,673,989	(25,200)	1,993,909
Total supporting services expenses	2,209,803	1,725,689	(25,200)	3,910,292
Total expenses	20,558,377	5,150,963	(3,427,299)	22,282,041
Change in Net Assets	216,539	59,463,340	-	59,679,879
Net Assets, Beginning	28,864,582	70,337,916	-	99,202,498
Net Assets, Ending	\$ 29,081,121	\$ 129,801,256	\$ -	\$ 158,882,377

Children's Home Society of South Dakota

Consolidating Statement of Cash Flows

June 30, 2019

	Children's Home Society	Children's Home Foundation	Eliminations	Consolidated
Operating Activities				
Change in net assets	\$ 216,539	\$ 59,463,340	\$ -	\$ 59,679,879
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	945,740	2,715	-	948,455
Gain on disposal of equipment	(10,168)	-	-	(10,168)
Net gain on investments	(92,032)	(3,217,549)	-	(3,309,581)
Change in value of beneficial interest in assets held by others	-	(33,915)	-	(33,915)
Change in beneficial interest in trusts	(3,701)	7,211	-	3,510
Change in discount and allowance on contributions receivable	-	141,696	-	141,696
Contributions restricted for endowment including noncash gifts	(73,704)	(43,499,003)	-	(43,572,707)
Contributions restricted to building project	-	(11,000,000)	-	(11,000,000)
Change in cash surrender value of life insurance	-	(36,164)	-	(36,164)
Change in working capital components				
Receivables	95,947	(114,103)	(41,448)	(59,604)
Prepaid expenses	(32,488)	23,677	-	(8,811)
Accounts payable	322,870	8,418	-	331,288
Accrued expenses	(259,185)	1,178	-	(258,007)
Annuity obligations	-	(21)	-	(21)
Due to Children's Home Society	-	(41,448)	41,448	-
Net Cash provided by Operating Activities	<u>1,109,818</u>	<u>1,706,032</u>	<u>-</u>	<u>2,815,850</u>
Investing Activities				
Purchase of land, buildings and equipment	(413,532)	(948)	-	(414,480)
Contribution to community foundation, net of distributions received	-	(50)	-	(50)
Purchase of investments	(1,970,783)	(67,346,472)	-	(69,317,255)
Proceeds from sale and maturity of investments	829,598	12,020,976	-	12,850,574
Net Cash used for Investing Activities	<u>(1,554,717)</u>	<u>(55,326,494)</u>	<u>-</u>	<u>(56,881,211)</u>
Financing Activities				
Proceeds from contributions restricted for endowmen	73,704	42,718,561	-	42,792,265
Proceeds from contributions restricted for investment in land, buildings and equipment	-	11,001,260	-	11,001,260
Net Cash provided by Financing Activities	<u>73,704</u>	<u>53,719,821</u>	<u>-</u>	<u>53,793,525</u>
Net Change in Cash and Cash Equivalents	(371,195)	99,359	-	(271,836)
Cash and Cash Equivalents, Beginning	<u>11,961,818</u>	<u>2,775,961</u>	<u>-</u>	<u>14,737,779</u>
Cash and Cash Equivalents, Ending	<u>\$ 11,590,623</u>	<u>\$ 2,875,320</u>	<u>\$ -</u>	<u>\$ 14,465,943</u>