



Consolidated Financial Statements  
June 30, 2021 and 2020

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

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

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June 30, 2021 and 2020

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Social Services of South Dakota, Inc. and consolidated affiliates, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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 Lutheran Social Services of South Dakota, Inc. and consolidated affiliates as of June 30, 2021 and 2020, and 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.

## **Other Matters**

### *Other information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating statements, and the consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2021 on our consideration of Lutheran Social Services of South Dakota, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc.'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 Lutheran Social Services of South Dakota, Inc.'s internal control over financial reporting and compliance.



Sioux Falls, South Dakota  
December 7, 2021

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

## Consolidated Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 5,046,378	\$ 3,346,757
Accounts receivable - fee for service, net	1,282,311	1,554,066
Accounts receivable - grants and contracts	917,860	758,017
Promises to give, net	161,831	337,932
Prepaid expenses	61,879	62,283
Investments	4,984,148	3,901,973
Beneficial interests in assets held by community foundations	58,554	31,429
Cash limited as to use	3,092,515	657,140
Assets held under split-interest agreements	494,600	386,191
Property and equipment, net	14,412,619	14,543,830
	\$ 30,512,695	\$ 25,579,618
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 508,866	\$ 365,230
Accrued liabilities	1,395,097	1,392,980
Refundable advances	651,129	2,852,000
Liabilities under split-interest agreements	73,115	77,265
Interest rate swap agreement	113,644	164,929
Notes payable	4,586,596	5,050,676
	7,328,447	9,903,080
<b>Net Assets</b>		
Without donor restrictions	17,342,931	10,226,128
With donor restrictions	5,841,317	5,450,410
	23,184,248	15,676,538
	\$ 30,512,695	\$ 25,579,618

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

Consolidated Statements of Activities  
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
Public support						
Contributions	\$ 262,107	\$ 941,145	\$ 1,203,252	\$ 268,180	\$ 485,916	\$ 754,096
Church support	139,059	46,400	185,459	128,195	214,295	342,490
United Way	342,602	819,386	1,161,988	387,571	840,135	1,227,706
Fees and grants from government agencies	16,184,551	242,040	16,426,591	14,064,491	22,500	14,086,991
Paycheck Protection Program forgiveness	2,886,699	-	2,886,699	-	-	-
Other grants	121,221	135,141	256,362	58,357	457,714	516,071
Total public support	19,936,239	2,184,112	22,120,351	14,906,794	2,020,560	16,927,354
Revenue						
Client and program income	4,722,674	-	4,722,674	5,162,305	-	5,162,305
Adoptive income	41,891	-	41,891	63,268	-	63,268
Investment return	1,106,167	108,409	1,214,576	48,038	1,431	49,469
Rent income	342,211	-	342,211	315,734	-	315,734
Donated supplies income	55,093	-	55,093	87,533	-	87,533
Unrealized gain (loss) on interest rate swap agreement	51,285	-	51,285	(12,625)	-	(12,625)
Change in value of split-interest agreements	-	4,150	4,150	-	963	963
Change in value of beneficial interests in assets held by community foundations	-	9,033	9,033	-	1,394	1,394
Gain (loss) on disposal of property and equipment	2,390,979	-	2,390,979	(9,805)	-	(9,805)
Miscellaneous income	177,625	171	177,796	53,297	39,859	93,156
Total revenue	8,887,925	121,763	9,009,688	5,707,745	43,647	5,751,392
Net assets released from restrictions	1,914,968	(1,914,968)	-	1,589,673	(1,589,673)	-
Total public support, revenue, and other support	30,739,132	390,907	31,130,039	22,204,212	474,534	22,678,746

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

Consolidated Statements of Activities  
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses						
Program services						
Residential services	\$ 7,689,198	\$ -	\$ 7,689,198	\$ 7,690,844	\$ -	\$ 7,690,844
Permanency services	2,247,609	-	2,247,609	1,697,597	-	1,697,597
Behavioral health	3,160,821	-	3,160,821	3,308,884	-	3,308,884
Center for New Americans	1,607,297	-	1,607,297	1,952,523	-	1,952,523
Childcare services	1,819,278	-	1,819,278	1,875,411	-	1,875,411
Other services	3,628,659	-	3,628,659	2,915,623	-	2,915,623
Lutheran Housing Corporations	332,194	-	332,194	307,897	-	307,897
Supporting services						
Management and general	2,459,383	-	2,459,383	2,361,396	-	2,361,396
Development and foundation	677,890	-	677,890	747,495	-	747,495
Total expenses	<u>23,622,329</u>	<u>-</u>	<u>23,622,329</u>	<u>22,857,670</u>	<u>-</u>	<u>22,857,670</u>
Change in Net Assets	7,116,803	390,907	7,507,710	(653,458)	474,534	(178,924)
Net Assets, Beginning of Year	<u>10,226,128</u>	<u>5,450,410</u>	<u>15,676,538</u>	<u>10,879,586</u>	<u>4,975,876</u>	<u>15,855,462</u>
Net Assets, End of Year	<u>\$ 17,342,931</u>	<u>\$ 5,841,317</u>	<u>\$ 23,184,248</u>	<u>\$ 10,226,128</u>	<u>\$ 5,450,410</u>	<u>\$ 15,676,538</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2021

	Program Services							Supporting Services		Total Expenses	
	Residential Services	Permanency Services	Behavioral Health	Center for New Americans	Childcare Services	Other Services	Lutheran Housing Corporations	Total Program Services	Management and General		Development and Foundation
Salaries	\$ 4,714,097	\$ 1,267,102	\$ 2,051,133	\$ 946,692	\$ 1,097,750	\$ 1,975,098	\$ 67,778	\$ 12,119,650	\$ 1,356,336	\$ 251,937	\$ 13,727,923
Employee health and retirement benefits	604,253	241,207	281,821	100,278	134,962	226,902	6,010	1,595,433	216,493	48,082	1,860,008
Payroll taxes	390,616	96,089	161,509	75,148	85,321	157,391	8,075	974,149	61,798	18,139	1,054,086
Travel	70,706	36,349	20,806	8,134	8,030	41,765	-	185,790	74,141	2,811	262,742
Conference and training	50,795	12,575	40,984	11,040	7,354	57,928	-	180,676	38,019	6,577	225,272
Professional fees	135,547	15,709	76,064	75,530	2,470	288,731	44,916	638,967	263,533	16,596	919,096
Client related expenses	539,675	354,759	29,264	72,340	117,775	562,254	-	1,676,067	34,097	-	1,710,164
Supplies	173,753	43,194	38,255	65,805	19,664	64,674	10,915	416,260	88,486	2,438	507,184
Communications	58,840	33,983	63,620	29,868	10,317	53,353	163	250,144	25,788	12,954	288,886
Occupancy expenses	560,920	114,126	269,667	(22,840)	262,324	45,221	105,538	1,334,956	122,041	107,300	1,564,297
Outside printing	-	5,111	24,356	850	10,481	21,452	347	62,597	26,124	158,184	246,905
Dues and subscriptions	7,348	2,486	6,495	12,618	230	1,760	-	30,937	12,567	924	44,428
Uncollectibles	-	-	61,410	1,580	1,610	2,242	6,961	73,803	(19,148)	20,077	74,732
Donated supplies	35,863	2,320	399	500	899	6,188	-	46,169	-	8,924	55,093
Miscellaneous	77,054	4,362	14,297	27,136	12,686	28,227	54,189	217,951	67,181	18,464	303,596
	<u>7,419,467</u>	<u>2,229,372</u>	<u>3,140,080</u>	<u>1,404,679</u>	<u>1,771,873</u>	<u>3,533,186</u>	<u>304,892</u>	<u>19,803,549</u>	<u>2,367,456</u>	<u>673,407</u>	<u>22,844,412</u>
Depreciation	269,731	18,237	20,741	202,618	47,405	95,473	27,302	681,507	91,927	4,483	777,917
	<u>\$ 7,689,198</u>	<u>\$ 2,247,609</u>	<u>\$ 3,160,821</u>	<u>\$ 1,607,297</u>	<u>\$ 1,819,278</u>	<u>\$ 3,628,659</u>	<u>\$ 332,194</u>	<u>\$ 20,485,056</u>	<u>\$ 2,459,383</u>	<u>\$ 677,890</u>	<u>\$ 23,622,329</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2020

	Program Services							Supporting Services		Total Expenses	
	Residential Services	Permanency Services	Behavioral Health	Center for New Americans	Childcare Services	Other Services	Lutheran Housing Corporations	Total Program Services	Management and General		Development and Foundation
Salaries	\$ 4,861,042	\$ 762,865	\$ 2,033,400	\$ 1,143,762	\$ 1,125,711	\$ 1,712,893	\$ 81,812	\$ 11,721,485	\$ 1,243,629	\$ 251,319	\$ 13,216,433
Employee health and retirement benefits	568,042	128,087	230,598	113,885	120,026	184,187	7,353	1,352,178	206,023	58,417	1,616,618
Payroll taxes	430,995	60,525	172,185	98,302	95,006	143,064	7,233	1,007,310	71,954	16,912	1,096,176
Travel	82,399	33,297	59,808	20,025	8,594	77,137	-	281,260	66,454	2,401	350,115
Conference and training	56,061	9,387	27,427	25,286	8,496	43,053	-	169,710	56,924	6,274	232,908
Professional fees	145,843	12,558	63,895	122,186	3,398	368,430	86,852	803,162	219,205	24,362	1,046,729
Client related expenses	559,303	524,428	37,802	214,242	110,078	98,366	-	1,544,219	31,497	-	1,575,716
Supplies	60,807	13,082	45,204	27,059	25,720	62,464	7,772	242,108	83,287	3,743	329,138
Communications	49,899	26,348	69,712	25,791	10,717	49,712	-	232,179	24,707	12,196	269,082
Occupancy expenses	468,764	94,350	261,066	(28,014)	231,810	39,108	80,186	1,147,270	92,862	197,639	1,437,771
Outside printing	-	2,208	30,769	527	12,596	15,694	360	62,154	65,102	131,830	259,086
Dues and subscriptions	708	148	3,298	9,014	150	773	-	14,091	3,348	1,147	18,586
Uncollectibles	199	-	227,853	107	67,713	-	165	296,037	51,903	10,539	358,479
Donated supplies	70,372	2,140	-	-	659	8,058	-	81,229	-	6,304	87,533
Miscellaneous	62,791	11,473	11,080	21,097	10,002	16,969	(606)	132,806	60,443	19,909	213,158
	<u>7,417,225</u>	<u>1,680,896</u>	<u>3,274,097</u>	<u>1,793,269</u>	<u>1,830,676</u>	<u>2,819,908</u>	<u>271,127</u>	<u>19,087,198</u>	<u>2,277,338</u>	<u>742,992</u>	<u>22,107,528</u>
Depreciation	<u>273,619</u>	<u>16,701</u>	<u>34,787</u>	<u>159,254</u>	<u>44,735</u>	<u>95,715</u>	<u>36,770</u>	<u>661,581</u>	<u>84,058</u>	<u>4,503</u>	<u>750,142</u>
	<u>\$ 7,690,844</u>	<u>\$ 1,697,597</u>	<u>\$ 3,308,884</u>	<u>\$ 1,952,523</u>	<u>\$ 1,875,411</u>	<u>\$ 2,915,623</u>	<u>\$ 307,897</u>	<u>\$ 19,748,779</u>	<u>\$ 2,361,396</u>	<u>\$ 747,495</u>	<u>\$ 22,857,670</u>

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

Consolidated Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 7,507,710	\$ (178,924)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	777,917	750,142
(Gain) loss on disposal of property and equipment	(2,390,979)	9,805
Unrealized (gain) loss on interest rate swap agreement	(51,285)	12,625
Change in value of split-interest agreements	(4,150)	(963)
Change in value of beneficial interests in assets held by community foundations	(9,033)	(1,394)
Investment (gain) loss	(1,101,671)	70,299
Change in discount on promises to give	(5,271)	(10,064)
Uncollectibles	74,732	358,479
Contributions restricted for capital	(36,323)	(187,063)
Paycheck Protection Program forgiveness	(2,886,699)	-
Advance on Paycheck Protection Program loan	-	2,852,000
Change in assets and liabilities		
Accounts receivable - fee for service, net	197,023	(156,470)
Accounts receivable - grants and contracts	(159,843)	(97,514)
Promises to give, net	131,676	21,199
Prepaid expenses and other assets	404	189,185
Accounts payable	147,550	4,698
Accrued liabilities	36,816	228,030
Refundable advances	651,129	-
Net Cash from Operating Activities	<u>2,879,703</u>	<u>3,864,070</u>
Investing Activities		
Purchases of long-term investments	(2,432,927)	(1,597,051)
Sales and maturities of long-term investments	2,344,014	1,814,170
Contributions to community foundations, net of distributions	(18,092)	(12,474)
Insurance proceeds received for property and equipment	2,531,857	-
Cash received on sale of property and equipment	-	550
Net purchases of property and equipment	(791,498)	(942,859)
Net Cash from (used for) Investing Activities	<u>1,633,354</u>	<u>(737,664)</u>
Financing Activities		
Principal payments on notes payable	(464,080)	(442,056)
Collections of contributions restricted for capital	86,019	156,220
Net Cash used for Financing Activities	<u>(378,061)</u>	<u>(285,836)</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	4,134,996	2,840,570
Beginning Cash, Cash Equivalents, and Restricted Cash	<u>4,003,897</u>	<u>1,163,327</u>
Ending Cash, Cash Equivalents, and Restricted Cash	<u>\$ 8,138,893</u>	<u>\$ 4,003,897</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
 Consolidated Statements of Cash Flows  
 Years Ended June 30, 2021 and 2020

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	2021	2020
Cash and Cash Equivalents	\$ 5,046,378	\$ 3,346,757
Cash Limited as to Use	3,092,515	657,140
Total Cash, Cash Equivalents, and Restricted Cash	\$ 8,138,893	\$ 4,003,897
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 236,106	\$ 226,005
Supplemental Disclosures of Noncash Investing and Financing Activities		
Accounts payable for property and equipment	\$ 69,471	\$ 73,385

**Note 1 - Nature of Activities and Summary of Significant Accounting Policies**

**Nature of Activities**

Lutheran Social Services of South Dakota, Inc. and consolidated affiliates (the Organization) are nonprofit corporations organized under the laws of the State of South Dakota for the purpose of providing social services with the church and other community health and welfare organizations. The Organization has the following program service areas:

**Residential Services**

The Organization provides treatment for youth who have significant mental health, emotional and behavioral issues. The Organization also provides treatment for youth who cannot function in their home environments and are disruptive in their schools and communities. The Organization provides 24-hour care for boys and girls ages 10 to 17 through two psychiatric residential treatment programs and one group care program. ATD programming provides a safe, stable environment to youth involved with the juvenile justice system and runaway and homeless youth in order to assess the youth's needs and connect the youth and family to appropriate resources.

**Permanency Services**

The Organization provides multiple programs that work to ensure children and youth are connected to safe, appropriate, and permanent home situations. This includes the training and assessment of potential resource families, identifying relatives as potential placement resources, foster care services, and adoption services.

**Behavioral Health**

The Organization provides mental health counseling and substance abuse counseling for individuals and families throughout the state of South Dakota.

**Center for New Americans**

The Center for New Americans helps refugees become self-sufficient through a variety of services, including community orientation, case management, employment services, English classes, citizenship classes and immigration services.

**Childcare Services**

The Organization offers daycare, preschool, afterschool and summer programs, and infant and toddler enrichment, emphasizing hands-on, enriching activities that keep children engaged in learning.

**Other Services**

The Organization provides a variety of other services, including the Center for Financial Resources, Disaster Response, Fatherhood and Re-Entry Services, Independent Living Services, and Mentoring Services. None of these other service programs individually exceed \$819,000 and \$547,000 of program expenses for the years ended June 30, 2021 and 2020, respectively.

### **Principles of Consolidation**

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

### **Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less are considered to be cash and cash equivalents, excluding cash limited as to use.

### **Receivables and Credit Policies**

Accounts receivables are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivables are stated at the amount billed. Account balances with invoices dated over 60 days old are considered delinquent. Accounts receivable at July 1, 2019 was \$1,756,075.

Payments of accounts receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2021 and 2020, the allowance was \$76,566 and \$95,714, respectively. During 2020, the Organization recognized approximately \$211,000 of bad debt expense above and beyond the estimated allowance as of June 30, 2019, related to receivables recorded prior to 2020, due to collectability issues.

### **Promises to Give**

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There was no allowance considered necessary as of June 30, 2021 and 2020.

## **Investments**

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

## **Beneficial Interest in Assets Held by Community Foundations**

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

## **Cash Limited as to Use**

Cash limited as to use includes cash and highly liquid financial instruments restricted by regulatory, mortgage, and security agreements to fund repairs and maintenance expenses, insurance expenses, development costs, and residual receipts, and as reserve funds for the repayment of bonds and loans.

## **Assets Held and Liabilities Under Split-Interest Agreements**

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as 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.

### **Fair Value Measurements**

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

### **Property and Equipment**

Property and equipment additions over \$2,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Depreciation expense is allocated to the various functions on a specific basis for certain assets and on a square footage basis for certain other assets. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2021 and 2020.

### **Financial Instruments and Credit Risk**

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give are considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and organizations supportive of the Organization's mission. Investments are made by diversified investment managers whose performance is monitored by management and the investment committee of the board of directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

### **Interest Rate Swap Agreement**

The Organization uses an interest-rate swap to mitigate interest-rate risk on a note payable (Note 11). The related liability or asset is reported at fair value in the consolidated statements of financial position, and unrealized losses or gains are included in the consolidated statements of activities.

### **Net Assets**

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for operating reserve and quasi-endowment purposes.

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

### **Revenue and Revenue Recognition**

The Organization recognizes revenue from client and program services in the period in which the related services are performed. The performance obligations of delivering residential, foster care, counseling, childcare, and other services are simultaneously received and consumed by the clients; therefore, the revenue is recognized ratably over the course of the year. Any amounts received prior to the commencement of the services, including program fees, are deferred to the applicable period.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Amounts received with conditions and restrictions are recognized as revenue that increases net assets without donor restrictions if those conditions are met and restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts, grants, and the Paycheck Protection Program, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. There were refundable advances of \$651,129 and \$2,852,000 as of June 30, 2021 and 2020, respectively. The Organization received cost reimbursable grants of approximately \$3,100,000 and \$3,200,000 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

## **Donated Services and In-Kind Contributions**

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

Donated materials and services for the years ended June 30, 2021 and 2020, were approximately \$55,000 and \$88,000, respectively.

Management estimates that volunteers donated approximately 20,200 and 49,000 hours of service in 2021 and 2020, respectively.

## **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon specific identification where possible and estimates made by management. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as occupancy and building and equipment maintenance expenses, are allocated on a square footage basis.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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## **Advertising**

Advertising and promotion costs are expensed as incurred. Such costs included in outside printing expense on the consolidated statements of functional expenses were \$186,388 and \$214,835 for the years ended June 30, 2021 and 2020, respectively.

## **Fundraising**

The Organization incurred expenses amounting to \$677,888 and \$747,495 for the years ended June 30, 2021 and 2020, respectively, related to development and fundraising. Such amounts are reflected as development and foundation expenses in the accompanying consolidated statements of activities.

## **Income Taxes**

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

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The entities would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

## **Estimates**

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

## **Reclassifications**

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 presentation. The reclassifications had no effect on previously reported change in net assets.

## **Subsequent Events**

The Organization has evaluated subsequent events through December 7, 2021, the date which the consolidated financial statements were available to be issued.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

## Note 2 - Liquidity and Availability

The Organization manages its liquidity to operate within a prudent range of financial soundness and stability. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, promises to give, investments, and a line of credit. See Note 10 for information on the line of credit.

	2021	2020
Financial assets at year end		
Cash and cash equivalents	\$ 5,046,378	\$ 3,346,757
Accounts receivable - fee for service, net	1,282,311	1,554,066
Accounts receivable - grants and contracts	917,860	758,017
Promises to give, net	161,831	337,932
Investments	4,984,148	3,901,973
Total financial assets	12,392,528	9,898,745
Less amounts not available to be used within one year		
Promises to give due after one year	(990)	(117,054)
Investments in non-liquid securities	(13,280)	(13,171)
Total financial assets not available to be used within one year	(14,270)	(130,225)
Donor imposed restrictions		
Restricted funds - capital campaign	(69,300)	(205,405)
Restricted funds - capital projects	(472,500)	(30,000)
Total donor imposed restrictions	(541,800)	(235,405)
Internal designations		
Board designated for endowment purposes - liquid securities	(4,982,009)	(3,911,179)
Distribution of board designated endowment within one year	206,923	213,849
Designated for apartment project operations	(80,272)	(44,454)
Total internal designations	(4,855,358)	(3,741,784)
Financial assets available to meet cash needs for general expenditures within one year	\$ 6,981,100	\$ 5,791,331

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to ongoing activities of our programs, as well as the services needed to support those programs to be general expenditures. In addition, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization monitors its liquidity quarterly to make sure the cash needs for general expenditures of the Organization are being met.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 3 - Cash and Cash Equivalents**

	<u>2021</u>	<u>2020</u>
Undesignated		
Cash on hand	\$ 2,345	\$ 2,345
Cash in checking	4,963,761	3,299,958
	<u>4,966,106</u>	<u>3,302,303</u>
Designated for apartment project operations	80,272	44,454
	<u>80,272</u>	<u>44,454</u>
Total cash and cash equivalents	<u>\$ 5,046,378</u>	<u>\$ 3,346,757</u>

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 160,841	\$ 220,878
In one to five years	1,115	122,450
Total promises to give	<u>161,956</u>	<u>343,328</u>
Less discount to net present value at 4.5%	<u>(125)</u>	<u>(5,396)</u>
Promises to give, net	<u>\$ 161,831</u>	<u>\$ 337,932</u>

At June 30, 2021 and 2020, there were unconditional promises to give from employees and board members totaling \$25,716 and \$47,962, respectively. Total contribution revenues from employees and board members were \$47,616 and \$58,216 for the years ended June 30, 2021 and 2020, respectively.

The Foundation has been named as a revocable beneficiary of several charitable trusts held and administered by an independent trustee. These trusts were created independently by donors and are administered by the Evangelical Lutheran Church in America (ELCA) as designated by the donors. Therefore, the Foundation has neither possession nor control over the assets of the trusts, and therefore the future gifts are considered intentions to give. The fair value provided by ELCA using present value techniques and risk-adjusted discount rates of the intentions to give were \$226,054 and \$187,387 at June 30, 2021 and 2020, respectively. The contributions are recognized as revenue at the time the beneficiary designation becomes irrevocable.

Designated funds which benefit the Organization are maintained at the Sioux Falls Area Community Foundation (SFACF) and the South Dakota Community Foundation (SDCF). The funds were established as a result of gifts by donors on the Organization's behalf. The Organization is the sole beneficiary of the funds; however, SFACF and SDCF have been given variance power by the donors. SFACF has funds totaling \$182,523 and \$153,075 at June 30, 2021 and 2020, respectively, for which the Organization is the beneficiary. SDCF has funds totaling \$110,517 and \$44,112 at June 30, 2021 and 2020, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until any distributions are received.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 5 - Investments**

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 414,861	\$ 200,298
Beneficial interests in assets held by community foundations	58,554	31,429
Mutual funds - equity securities	3,421,381	2,584,848
Mutual funds - fixed income	1,308,175	1,234,208
Mutual funds - real assets	321,051	255,639
Life insurance policies	13,280	13,171
	<u>\$ 5,537,302</u>	<u>\$ 4,319,593</u>

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

	<u>2021</u>	<u>2020</u>
Investments	\$ 4,984,148	\$ 3,901,973
Assets held under split-interest agreements	494,600	386,191
Beneficial interests in assets held by community foundations	58,554	31,429
	<u>\$ 5,537,302</u>	<u>\$ 4,319,593</u>

The investment return for the years ended June 30, 2021 and 2020, consists of the following components:

	<u>2021</u>	<u>2020</u>
Interest earned, dividends received, and mutual fund capital gains reinvested	\$ 112,905	\$ 119,768
Realized and unrealized gains (losses) on securities	1,101,671	(70,299)
	<u>\$ 1,214,576</u>	<u>\$ 49,469</u>

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 6 - Fair Value of Investments**

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

	<u>2021</u>	<u>2020</u>
Mutual funds	\$ 5,050,607	\$ 4,074,695
Beneficial interests in assets held by community foundations	<u>58,554</u>	<u>31,429</u>
Total assets	<u>\$ 5,109,161</u>	<u>\$ 4,106,124</u>
Liabilities under split-interest agreements	\$ 73,115	\$ 77,265
Interest rate swap agreement	<u>113,644</u>	<u>164,929</u>
Total liabilities	<u>\$ 186,759</u>	<u>\$ 242,194</u>

The related fair values of these assets and liabilities are determined as follows:

	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<u>June 30, 2021</u>			
Mutual funds	\$ 5,050,607	\$ -	\$ -
Beneficial interests in assets held by community foundations	<u>-</u>	<u>-</u>	<u>58,554</u>
Total assets	<u>\$ 5,050,607</u>	<u>\$ -</u>	<u>\$ 58,554</u>
Liabilities under split-interest agreements	\$ -	\$ -	\$ 73,115
Interest rate swap agreement	<u>-</u>	<u>113,644</u>	<u>-</u>
Total liabilities	<u>\$ -</u>	<u>\$ 113,644</u>	<u>\$ 73,115</u>
<u>June 30, 2020</u>			
Mutual funds	\$ 4,074,695	\$ -	\$ -
Beneficial interests in assets held by community foundations	<u>-</u>	<u>-</u>	<u>31,429</u>
Total assets	<u>\$ 4,074,695</u>	<u>\$ -</u>	<u>\$ 31,429</u>
Liabilities under split-interest agreements	\$ -	\$ -	\$ 77,265
Interest rate swap agreement	<u>-</u>	<u>164,929</u>	<u>-</u>
Total liabilities	<u>\$ -</u>	<u>\$ 164,929</u>	<u>\$ 77,265</u>

There were no transfers into or out of Level 3. The fair value for mutual funds is determined by reference to quoted market prices. The fair value of the beneficial interest in assets held by the community foundations, and liabilities under split-interest agreements are estimated at the present value of the expected future cash flows. The fair value of the interest rate swap is based upon estimates of the related LIBOR swap rate during the term of the swap agreement.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Following is a reconciliation of activity for assets/liabilities measured at fair value based upon significant unobservable (non-market) inputs (Level 3) for 2020 and 2021:

	Beneficial Interest in Assets Held by Community Foundations	Liabilities Under Split-Interest Agreements
Balance, July 1, 2019	\$ 17,561	\$ (78,228)
Total gains or losses		
Included in change in net assets, net of fees	1,394	963
Purchases and sales		
Purchases (contributions to the CF)	12,800	-
Sales (distributions from the CF)	(326)	-
Balance, June 30, 2020	31,429	(77,265)
Total gains or losses		
Included in change in net assets, net of fees	9,033	4,150
Purchases and sales		
Purchases (contributions to the CF)	18,421	-
Sales (distributions from the CF)	(329)	-
Balance, June 30, 2021	\$ 58,554	\$ (73,115)

## **Note 7 - Cash Limited as to Use**

Pursuant to the regulatory agreements and mortgage agreements with the South Dakota Housing Development Authority and the U.S. Department of Housing and Urban Development (HUD), the Lutheran Housing Corporations are required to provide cash escrow accounts to fund repairs and maintenance expenses, insurance expenses, development costs, and residual receipts. Total cash limited as to use related to these agreements as of June 30, 2021 and 2020, were \$2,692,307 and \$256,964, respectively. The June 30, 2021 balance includes insurance proceeds of \$2,531,857 relating to the Northport fire (Note 8).

The regulatory agreements and mortgage agreements with the South Dakota Housing Development Authority and the U.S. Department of Housing and Urban Development also provide for restrictive operating procedure and loan covenants. As of June 30, 2021, management believes the Lutheran Housing Corporations are in compliance with these agreements.

Pursuant to the mortgage and security agreements of the Minnehaha County, South Dakota Economic Development Revenue Bonds, Series 2006, the Organization is required to establish and maintain a separate reserve fund for the repayment of the bonds. Total cash limited as to use related to these agreements as of June 30, 2021 and 2020, were \$342,692 and \$342,660, respectively.

Pursuant to the mortgage and security agreements of the note payable to U.S. Department of Agriculture, the Organization is required to establish and maintain a separate reserve fund for the repayment of the loan. Total cash limited as to use related to these agreements as of June 30, 2021 and 2020, were \$57,516.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 8 - Property and Equipment**

	Useful Life	2021		2020	
		Cost	Accumulated Depreciation	Net	Net
Land		\$ 2,763,942	\$ -	\$ 2,763,942	\$ 2,655,942
Buildings and improvements	15 - 40 years	17,838,251	7,021,485	10,816,766	11,180,224
Furniture and equipment	7 - 14 years	1,967,197	1,317,853	649,344	657,171
Automobiles	3 - 5 years	724,383	653,687	70,696	50,493
Work in process		111,871	-	111,871	-
		<u>\$23,405,644</u>	<u>\$ 8,993,025</u>	<u>\$14,412,619</u>	<u>\$14,543,830</u>

Property acquired with federal HUD grants is considered owned by the Organization; however, the grantor agency has interests in certain property. The amount of property acquired with these grants was \$3,531,483 at June 30, 2021 and 2020, and is reflected as net assets with donor restrictions.

In August 2020, the building owned by Lutheran Housing Corporation/North Sioux City, Inc. was destroyed by a fire. The Organization is currently working with the U.S. Department of Housing and Urban Development to determine options for rebuilding and the transfer of ownership. Insurance proceeds of approximately \$2,500,000 have been received, with potential obligations to HUD totaling \$2,700,000 plus demolition costs.

Work in process at June 30, 2021 consists of various construction, remodeling, and software projects. The Organization has contract commitments of approximately \$491,000 related to the various projects, of which \$470,000 was entered into subsequent to June 30, 2021.

**Note 9 - Paycheck Protection Program (PPP) Loan**

The Organization was granted a \$2,852,000 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 Organization has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for-Profit – Revenue Recognition*. The Organization initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized the full amount of \$2,852,000 as contribution revenue for the year ended June 30, 2021.

**Note 10 - Line of Credit**

A line-of-credit agreement has been executed in the total amount of \$637,500 on a revolving basis. This line-of-credit expires on May 1, 2022 and is secured by all cash and equipment. Interest on unpaid principal is payable monthly at a rate of 1.25% over the Prime Rate set from time to time by the lender. The line of credit was unused as of June 30, 2021 and 2020.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**Note 11 - Notes Payable**

	<u>2021</u>	<u>2020</u>
Variable rate (1.79% at June 30, 2021) note payable to First Interstate Bank, due in monthly installments of \$6,670, including interest, due August 1, 2025, secured by real property (Canyon Hills)	\$ 96,881	\$ 174,068
Variable rate (1.260% at June 30, 2021) Minnehaha County, South Dakota Economic Development Revenue Bonds, Series 2006, due in varying monthly installments increasing annually, plus interest, due February 1, 2027, secured by real property	1,559,482	1,791,966
Adjustable rate (5.375% until March 4, 2023) note payable to Premier Bank, due in monthly installments of \$2,657, including interest, due March 1, 2033, secured by real property (New Alternatives)	276,313	292,652
4.125% note payable to U.S. Department of Agriculture, due in monthly installments of \$4,793, including interest, due July 27, 2045, secured by real property (Canyon Hills)	875,263	896,202
4.24% note payable to Great Western Bank, due in monthly installments of \$16,361, including interest, through December 21, 2022, when full payment is due, secured by real property (East Bank Campus)	<u>1,778,657</u>	<u>1,895,788</u>
	<u>\$ 4,586,596</u>	<u>\$ 5,050,676</u>

To minimize the effect of changes in the interest rate, in October 2006, the Organization entered into an interest rate swap agreement on \$3,000,000 of the South Dakota Economic Development Revenue Series 2006 bonds to set the interest at a fixed rate of 4.81% until maturity. Under the agreement, the Organization either pays additional interest or receives an interest credit depending on the relationship between the variable rate and the fixed rate. The Organization recorded unrealized gains of \$51,285 and losses of \$12,625 relating to the agreement for the years ended June 30, 2021 and 2020, respectively. Accordingly, the Organization recorded interest rate exchange liabilities equal to the estimated market value in the consolidated statements of financial position as of June 30, 2021 and 2020 of \$113,644 and \$164,929, respectively.

Interest expense included in occupancy expense on the consolidated statements of functional expenses for the years ended June 30, 2021 and 2020 was \$230,011 and \$252,765, respectively.

Minimum principal payments on the notes are as follows for the years ending June 30:

2022	\$ 485,082
2023	1,972,602
2024	313,390
2025	329,287
2026	345,993
Thereafter	<u>1,140,242</u>
	<u>\$ 4,586,596</u>

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The Minnehaha County bond covenants require the Organization to meet certain financial ratios and other requirements. Management believes that the Organization was in compliance with these requirements for the year ended June 30, 2021.

## **Note 12 - Net Assets**

Net assets consist of the following:

	2021	2020
<b>Without donor restrictions</b>		
Designated by the board of the foundation for endowment purposes	\$ 4,795,305	\$ 3,924,350
Designated for apartment project operations (checking account)	80,272	44,454
Undesignated	12,467,354	6,257,324
Total without donor restrictions	17,342,931	10,226,128
<b>With donor restrictions</b>		
Subject to expenditure for specified purpose		
Refugee resettlement and placement	107,663	89,746
Disaster response	203,677	369,530
Community services	801,679	289,095
Children and youth programs	102,630	50,326
Capital campaign - future development	69,300	253,339
Capital assets	3,626,483	3,626,483
	4,911,432	4,678,519
Subject to the passage of time		
Assets held under split-interest agreements	421,485	308,926
United Way contributions	411,818	418,336
Assets held by community foundations	74,699	44,629
Promises to give	21,883	-
	929,885	771,891
Total with donor restrictions	5,841,317	5,450,410
Total net assets	\$ 23,184,248	\$ 15,676,538

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

	2021	2020
United Way contributions	\$ 825,904	\$ 787,438
Promises to give	25,652	-
Refugee resettlement and placement	79,332	70,743
Disaster response	209,853	156,287
Community services	468,212	323,015
Children and youth programs	85,653	57,904
Capital campaign - future development	220,362	194,286
Total net assets released from restrictions	\$ 1,914,968	\$ 1,589,673

## **Note 13 - Endowment Net Asset Composition by Type of Fund**

The Organization's endowment consists of funds that have been gifted to the Organization by donors without restrictions and have been designated as funds functioning as endowment by the board of directors. In the event that funds received by the Organization in the future are endowed by the donor, they will be treated as net assets with donor restrictions. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### **Interpretation of Relevant Law**

The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization will consider the following factors in making a determination to accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The purposes of the Organization and the donor-restricted endowment fund,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Organization, and
- (7) The investment policies of the Organization.

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Endowment Net Asset Composition by Type of Fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,795,305	\$ -	\$ 4,795,305
Endowment net assets, June 30, 2020	\$ 3,924,350	\$ -	\$ 3,924,350
Investment return			
Investment income	102,572	-	102,572
Net realized and unrealized appreciation	993,262	-	993,262
Appropriation of endowment assets for expenditure	(213,849)	-	(213,849)
Other changes	(11,030)	-	(11,030)
Endowment net assets, June 30, 2021	\$ 4,795,305	\$ -	\$ 4,795,305

Endowment Net Asset Composition by Type of Fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,924,350	\$ -	\$ 3,924,350
Endowment net assets, July 1, 2019	\$ 4,187,533	\$ -	\$ 4,187,533
Investment return			
Investment income	109,422	-	109,422
Net realized and unrealized depreciation	(71,731)	-	(71,731)
Appropriation of endowment assets for expenditure	(309,892)	-	(309,892)
Other changes	9,018	-	9,018
Endowment net assets, June 30, 2020	\$ 3,924,350	\$ -	\$ 3,924,350

**Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Investment assets include those assets of donor-specific funds that the Organization will designate for a specific purpose as well as board-designated funds. Under this policy, the assets are invested in a manner that seeks both preservation of capital and growth of capital on a real return basis. Asset allocation guidelines have been established for the assets based on liquidity needs and time horizon. The rebalancing of assets will occur annually, or as needed and will be reviewed by the board of directors. During the course of a complete market cycle, the total return objective shall be to achieve a return greater than capital market returns with a similarly weighted asset allocation. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Organization has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment.

**Note 14 - Leases**

The Organization leases certain property, building space, vehicles, and equipment under various lease agreements with varying terms. Total lease expense for all operating leases and rental agreements was \$358,877 and \$388,043 for the years ended June 30, 2021 and 2020, respectively.

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

	<u>Years Ending June 30,</u>	
2022		\$ 275,959
2023		145,285
2024		130,549
2025		89,246
2026		38,094
Thereafter		<u>67</u>
		<u><u>\$ 679,200</u></u>

**Note 15 - Pension Plan**

The Organization has a 401(k) (defined contribution) pension plan covering all employees who work over 1,000 hours per year, excluding all fee-based employees. The Organization contributed 2.0% of the respective employees' base pay to the plan for the years ended June 30, 2021 and 2020, respectively. Pension expense was \$151,786 and \$116,943 for the years ended June 30, 2021 and 2020, respectively.

**Note 16 - Support from Governmental Units**

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



Supplementary Information  
June 30, 2021 and 2020

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

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidating Statement of Financial Position  
Year Ended June 30, 2021

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 4,951,087	\$ 15,019	\$ 80,272	\$ -	\$ 5,046,378
Accounts receivable - fee for service, net	1,283,573	-	(1,262)	-	1,282,311
Accounts receivable - grants and contracts	917,860	-	-	-	917,860
Due from related entity	41,983	15	-	(41,998)	-
Promises to give, net	161,081	750	-	-	161,831
Prepaid expenses	61,879	-	-	-	61,879
Investments	4,627	4,979,521	-	-	4,984,148
Beneficial interests in assets held by community foundations	58,554	-	-	-	58,554
Cash limited as to use	400,208	-	2,692,307	-	3,092,515
Assets held under split-interest agreements	-	494,600	-	-	494,600
Property and equipment, net	14,081,380	-	331,239	-	14,412,619
	<u>\$ 21,962,232</u>	<u>\$ 5,489,905</u>	<u>\$ 3,102,556</u>	<u>\$ (41,998)</u>	<u>\$ 30,512,695</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 475,795	\$ -	\$ 33,071	\$ -	\$ 508,866
Due to related entity	-	-	41,998	(41,998)	-
Accrued liabilities	1,387,093	-	8,004	-	1,395,097
Refundable advances	651,129	-	-	-	651,129
Liabilities under split-interest agreements	-	73,115	-	-	73,115
Interest rate swap agreement	113,644	-	-	-	113,644
Notes payable	4,586,596	-	-	-	4,586,596
	<u>7,214,257</u>	<u>73,115</u>	<u>83,073</u>	<u>(41,998)</u>	<u>7,328,447</u>
<b>Net Assets</b>					
Without donor restrictions	13,154,626	4,795,305	(607,000)	-	17,342,931
With donor restrictions	1,593,349	621,485	3,626,483	-	5,841,317
	<u>14,747,975</u>	<u>5,416,790</u>	<u>3,019,483</u>	<u>-</u>	<u>23,184,248</u>
	<u>\$ 21,962,232</u>	<u>\$ 5,489,905</u>	<u>\$ 3,102,556</u>	<u>\$ (41,998)</u>	<u>\$ 30,512,695</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
 Consolidating Statement of Financial Position  
 Year Ended June 30, 2020

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 3,275,699	\$ 26,604	\$ 44,454	\$ -	\$ 3,346,757
Accounts receivable - fee for service, net	1,544,213	-	9,853	-	1,554,066
Accounts receivable - grants and contracts	758,017	-	-	-	758,017
Promises to give, net	337,532	400	-	-	337,932
Prepaid expenses	61,820	-	463	-	62,283
Investments	4,627	3,897,346	-	-	3,901,973
Beneficial interests in assets held by community foundations	31,429	-	-	-	31,429
Cash limited as to use	400,176	-	256,964	-	657,140
Assets held under split-interest agreements	-	386,191	-	-	386,191
Property and equipment, net	14,216,494	-	327,336	-	14,543,830
	<u>\$ 20,630,007</u>	<u>\$ 4,310,541</u>	<u>\$ 639,070</u>	<u>\$ -</u>	<u>\$ 25,579,618</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 334,696	\$ -	\$ 30,534	\$ -	\$ 365,230
Accrued liabilities	1,380,507	-	12,473	-	1,392,980
Refundable advances	2,852,000	-	-	-	2,852,000
Liabilities under split-interest agreements	-	77,265	-	-	77,265
Interest rate swap agreement	164,929	-	-	-	164,929
Notes payable	5,050,676	-	-	-	5,050,676
Total liabilities	<u>9,782,808</u>	<u>77,265</u>	<u>43,007</u>	<u>-</u>	<u>9,903,080</u>
<b>Net Assets</b>					
Without donor restrictions	9,332,198	3,924,350	(3,030,420)	-	10,226,128
With donor restrictions	<u>1,515,001</u>	<u>308,926</u>	<u>3,626,483</u>	<u>-</u>	<u>5,450,410</u>
Total net assets	<u>10,847,199</u>	<u>4,233,276</u>	<u>596,063</u>	<u>-</u>	<u>15,676,538</u>
	<u>\$ 20,630,007</u>	<u>\$ 4,310,541</u>	<u>\$ 639,070</u>	<u>\$ -</u>	<u>\$ 25,579,618</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidating Statement of Activities  
Year Ended June 30, 2021

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Public Support, Revenue, and Other Support								
Public support								
Contributions	\$ 247,822	\$ 941,145	\$ 14,285	\$ -	\$ -	\$ -	\$ -	\$ 1,203,252
Church support	139,059	46,400	-	-	-	-	-	185,459
United Way	342,602	819,386	-	-	-	-	-	1,161,988
Fees and grants from government agencies	16,184,551	242,040	-	-	-	-	-	16,426,591
Paycheck Protection Program loan forgiveness	2,886,699	-	-	-	-	-	-	2,886,699
Other grants	121,221	135,141	-	-	-	-	-	256,362
Total public support	<u>19,921,954</u>	<u>2,184,112</u>	<u>14,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,120,351</u>
Revenue								
Client and program income	4,722,674	-	-	-	-	-	-	4,722,674
Adoptive income	41,891	-	-	-	-	-	-	41,891
Investment return	10,333	-	1,095,834	108,409	-	-	-	1,214,576
Rent income	33,986	-	-	-	308,225	-	-	342,211
Donated supplies income	55,093	-	-	-	-	-	-	55,093
Unrealized loss on interest rate swap agreement	51,285	-	-	-	-	-	-	51,285
Change in value of split-interest agreements	-	-	-	4,150	-	-	-	4,150
Change in value of beneficial interests in assets held by community foundations	-	9,033	-	-	-	-	-	9,033
(Loss) gain on disposal of property and equipment	(56,410)	-	-	-	2,447,389	-	-	2,390,979
Miscellaneous income (loss)	202,940	171	(25,315)	-	-	-	-	177,796
Total revenue	<u>5,061,792</u>	<u>9,204</u>	<u>1,070,519</u>	<u>112,559</u>	<u>2,755,614</u>	<u>-</u>	<u>-</u>	<u>9,009,688</u>
Net assets released from restrictions	<u>1,914,968</u>	<u>(1,914,968)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>26,898,714</u>	<u>278,348</u>	<u>1,084,804</u>	<u>112,559</u>	<u>2,755,614</u>	<u>-</u>	<u>-</u>	<u>31,130,039</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidating Statement of Activities  
Year Ended June 30, 2021

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Expenses								
Program services								
Residential services	\$ 7,689,198	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,689,198
Permanency services	2,247,609	-	-	-	-	-	-	2,247,609
Behavioral health	3,160,821	-	-	-	-	-	-	3,160,821
Center for New Americans	1,607,297	-	-	-	-	-	-	1,607,297
Childcare services	1,819,278	-	-	-	-	-	-	1,819,278
Other services	3,628,659	-	-	-	-	-	-	3,628,659
Lutheran Housing Corporations	-	-	-	-	332,194	-	-	332,194
Supporting services								
Management and general	2,459,383	-	-	-	-	-	-	2,459,383
Development and foundation	677,890	-	-	-	-	-	-	677,890
Total expenses	<u>23,290,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,194</u>	<u>-</u>	<u>-</u>	<u>23,622,329</u>
Excess of Public Support, Revenue, and Other Support over Expenses	3,608,579	278,348	1,084,804	112,559	2,423,420	-	-	7,507,710
Inter-organization Transfers	<u>213,849</u>	<u>(200,000)</u>	<u>(213,849)</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	3,822,428	78,348	870,955	312,559	2,423,420	-	-	7,507,710
Net Assets, Beginning of Year	<u>9,332,198</u>	<u>1,515,001</u>	<u>3,924,350</u>	<u>308,926</u>	<u>(3,030,420)</u>	<u>3,626,483</u>	<u>-</u>	<u>15,676,538</u>
Net Assets, End of Year	<u>\$ 13,154,626</u>	<u>\$ 1,593,349</u>	<u>\$ 4,795,305</u>	<u>\$ 621,485</u>	<u>\$ (607,000)</u>	<u>\$ 3,626,483</u>	<u>\$ -</u>	<u>\$ 23,184,248</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidating Statement of Activities  
Year Ended June 30, 2020

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Public Support, Revenue, and Other Support								
Public support								
Contributions	\$ 237,206	\$ 485,916	\$ 30,974	\$ -	\$ -	\$ -	\$ -	\$ 754,096
Church support	128,195	214,295	-	-	-	-	-	342,490
United Way	387,571	840,135	-	-	-	-	-	1,227,706
Fees and grants from government agencies	14,064,491	22,500	-	-	-	-	-	14,086,991
Other grants	58,357	457,714	-	-	-	-	-	516,071
Total public support	<u>14,875,820</u>	<u>2,020,560</u>	<u>30,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,927,354</u>
Revenue								
Client and program income	5,162,305	-	-	-	-	-	-	5,162,305
Adoptive income	63,268	-	-	-	-	-	-	63,268
Investment return	10,347	-	37,691	1,431	-	-	-	49,469
Rent income	24,827	-	-	-	290,907	-	-	315,734
Donated supplies income	87,533	-	-	-	-	-	-	87,533
Unrealized loss on interest rate swap agreement	(12,625)	-	-	-	-	-	-	(12,625)
Change in value of split-interest agreements	-	-	-	963	-	-	-	963
Change in value of beneficial interests in assets held by community foundations	-	1,394	-	-	-	-	-	1,394
Gain (loss) on disposal of property and equipment	550	-	-	-	(10,355)	-	-	(9,805)
Miscellaneous income (loss)	75,253	39,859	(21,956)	-	-	-	-	93,156
Total revenue	<u>5,411,458</u>	<u>41,253</u>	<u>15,735</u>	<u>2,394</u>	<u>280,552</u>	<u>-</u>	<u>-</u>	<u>5,751,392</u>
Net assets released from restrictions	<u>1,589,673</u>	<u>(1,589,673)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>21,876,951</u>	<u>472,140</u>	<u>46,709</u>	<u>2,394</u>	<u>280,552</u>	<u>-</u>	<u>-</u>	<u>22,678,746</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates  
Consolidating Statement of Activities  
Year Ended June 30, 2020

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporations		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Expenses								
Program services								
Residential services	\$ 7,690,844	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,690,844
Permanency services	1,697,597	-	-	-	-	-	-	1,697,597
Behavioral health	3,308,884	-	-	-	-	-	-	3,308,884
Center for New Americans	1,952,523	-	-	-	-	-	-	1,952,523
Childcare services	1,875,411	-	-	-	-	-	-	1,875,411
Other services	2,915,623	-	-	-	-	-	-	2,915,623
Lutheran Housing Corporations	-	-	-	-	307,897	-	-	307,897
Supporting services								
Management and general	2,361,396	-	-	-	-	-	-	2,361,396
Development and foundation	747,495	-	-	-	-	-	-	747,495
Total expenses	<u>22,549,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,897</u>	<u>-</u>	<u>-</u>	<u>22,857,670</u>
(Deficit) Excess of Public Support, Revenue, and Other Support over Expenses	(672,822)	472,140	46,709	2,394	(27,345)	-	-	(178,924)
Inter-organization Transfers	<u>309,892</u>	<u>-</u>	<u>(309,892)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(362,930)	472,140	(263,183)	2,394	(27,345)	-	-	(178,924)
Net Assets, Beginning of Year	<u>9,695,128</u>	<u>1,042,861</u>	<u>4,187,533</u>	<u>306,532</u>	<u>(3,003,075)</u>	<u>3,626,483</u>	<u>-</u>	<u>15,855,462</u>
Net Assets, End of Year	<u>\$ 9,332,198</u>	<u>\$ 1,515,001</u>	<u>\$ 3,924,350</u>	<u>\$ 308,926</u>	<u>\$ (3,030,420)</u>	<u>\$ 3,626,483</u>	<u>\$ -</u>	<u>\$ 15,676,538</u>

**Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates**  
**Consolidating Statement of Cash Flows**  
**Year Ended June 30, 2021**

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
<b>Operating Activities</b>					
Change in net assets	\$ 3,900,776	\$ 1,183,514	\$ 2,423,420	\$ -	\$ 7,507,710
Adjustments to reconcile change in net assets to net cash from operating activities					
Depreciation	750,615	-	27,302	-	777,917
Loss (gain) on disposal of property and equipment	56,410	-	(2,447,389)	-	(2,390,979)
Unrealized gain on interest rate swap agreement	(51,285)	-	-	-	(51,285)
Change in value of split-interest agreements	-	(4,150)	-	-	(4,150)
Change in value of beneficial interest in assets held by community foundations	(9,033)	-	-	-	(9,033)
Investment gain	-	(1,101,671)	-	-	(1,101,671)
Change in discount on promises to give	(5,271)	-	-	-	(5,271)
Uncollectibles	74,732	-	-	-	74,732
Contributions restricted for capital	(36,323)	-	-	-	(36,323)
Paycheck Protection Program forgiveness	(2,886,699)	-	-	-	(2,886,699)
<b>Change in assets and liabilities</b>					
Accounts receivable - fee for service, net	185,908	-	11,115	-	197,023
Accounts receivable - grants and contracts	(159,843)	-	-	-	(159,843)
Promises to give, net	132,026	(350)	-	-	131,676
Prepaid expenses and other assets	(59)	-	463	-	404
Due to/from related entities	(41,983)	(15)	41,998	-	-
Accounts payable	145,013	-	2,537	-	147,550
Accrued liabilities	41,285	-	(4,469)	-	36,816
Refundable advances	651,129	-	-	-	651,129
<b>Net Cash from Operating Activities</b>	<b>2,747,398</b>	<b>77,328</b>	<b>54,977</b>	<b>-</b>	<b>2,879,703</b>
<b>Investing Activities</b>					
Purchases of long-term investments	-	(2,432,927)	-	-	(2,432,927)
Sales and maturities of long-term investments	-	2,344,014	-	-	2,344,014
Contributions to community foundations, net	(18,092)	-	-	-	(18,092)
Insurance proceeds received for property and equipment	-	-	2,531,857	-	2,531,857
Net purchases of property and equipment	(675,825)	-	(115,673)	-	(791,498)
<b>Net Cash (used for) from Investing Activities</b>	<b>(693,917)</b>	<b>(88,913)</b>	<b>2,416,184</b>	<b>-</b>	<b>1,633,354</b>
<b>Financing Activities</b>					
Principal payments on notes payable	(464,080)	-	-	-	(464,080)
Collections of contributions restricted for capital	86,019	-	-	-	86,019
<b>Net Cash used for Financing Activities</b>	<b>(378,061)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(378,061)</b>
<b>Net Change in Cash, Cash Equivalents, and Restricted Cash</b>	<b>1,675,420</b>	<b>(11,585)</b>	<b>2,471,161</b>	<b>-</b>	<b>4,134,996</b>
<b>Beginning Cash, Cash Equivalents, and Restricted Cash</b>	<b>3,675,875</b>	<b>26,604</b>	<b>301,418</b>	<b>-</b>	<b>4,003,897</b>
<b>Ending Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 5,351,295</b>	<b>\$ 15,019</b>	<b>\$ 2,772,579</b>	<b>\$ -</b>	<b>\$ 8,138,893</b>
<b>Cash and Cash Equivalents</b>	<b>\$ 4,951,087</b>	<b>\$ 15,019</b>	<b>\$ 80,272</b>	<b>\$ -</b>	<b>\$ 5,046,378</b>
<b>Cash Limited as to Use</b>	<b>400,208</b>	<b>-</b>	<b>2,692,307</b>	<b>-</b>	<b>3,092,515</b>
<b>Total Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 5,351,295</b>	<b>\$ 15,019</b>	<b>\$ 2,772,579</b>	<b>\$ -</b>	<b>\$ 8,138,893</b>

**Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates**  
**Consolidating Statement of Cash Flows**  
**Year Ended June 30, 2020**

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
<b>Operating Activities</b>					
Change in net assets	\$ 109,210	\$ (260,789)	\$ (27,345)	\$ -	\$ (178,924)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	713,372	-	36,770	-	750,142
(Gain) loss on disposal of property and equipment	(550)	-	10,355	-	9,805
Unrealized loss on interest rate swap agreement	12,625	-	-	-	12,625
Change in value of split-interest agreements	-	(963)	-	-	(963)
Change in value of beneficial interest in assets held by community foundations	(1,394)	-	-	-	(1,394)
Investment loss	-	70,299	-	-	70,299
Change in discount on promises to give	(10,064)	-	-	-	(10,064)
Uncollectibles	358,479	-	-	-	358,479
Contributions restricted for capital	(187,063)	-	-	-	(187,063)
Advance on Paycheck Protection Program loan	2,852,000	-	-	-	2,852,000
Change in assets and liabilities					
Accounts receivable - fee for service, net	(146,688)	-	(9,782)	-	(156,470)
Accounts receivable - grants and contracts	(97,514)	-	-	-	(97,514)
Promises to give, net	21,074	125	-	-	21,199
Prepaid expenses and other assets	188,759	-	426	-	189,185
Accounts payable	(4,427)	-	9,125	-	4,698
Accrued liabilities	229,028	-	(998)	-	228,030
<b>Net Cash from (used for) Operating Activities</b>	<b>4,036,847</b>	<b>(191,328)</b>	<b>18,551</b>	<b>-</b>	<b>3,864,070</b>
<b>Investing Activities</b>					
Purchases of long-term investments	(2)	(1,597,049)	-	-	(1,597,051)
Sales and maturities of long-term investments	-	1,814,170	-	-	1,814,170
Contributions to community foundations, net	(12,474)	-	-	-	(12,474)
Cash received on sale of property and equipment	550	-	-	-	550
Net purchases of property and equipment	(951,437)	-	8,578	-	(942,859)
<b>Net Cash (used for) from Investing Activities</b>	<b>(963,363)</b>	<b>217,121</b>	<b>8,578</b>	<b>-</b>	<b>(737,664)</b>
<b>Financing Activities</b>					
Principal payments on notes payable	(442,056)	-	-	-	(442,056)
Collections of contributions restricted for capital	156,220	-	-	-	156,220
<b>Net Cash used for Financing Activities</b>	<b>(285,836)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(285,836)</b>
<b>Net Change in Cash, Cash Equivalents, and Restricted Cash</b>	<b>2,787,648</b>	<b>25,793</b>	<b>27,129</b>	<b>-</b>	<b>2,840,570</b>
<b>Beginning Cash, Cash Equivalents, and Restricted Cash</b>	<b>888,227</b>	<b>811</b>	<b>274,289</b>	<b>-</b>	<b>1,163,327</b>
<b>Ending Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 3,675,875</b>	<b>\$ 26,604</b>	<b>\$ 301,418</b>	<b>\$ -</b>	<b>\$ 4,003,897</b>
Cash and Cash Equivalents	\$ 3,275,699	\$ 26,604	\$ 44,454	\$ -	\$ 3,346,757
Cash Limited as to Use	400,176	-	256,964	-	657,140
<b>Total Cash, Cash Equivalents, and Restricted Cash</b>	<b>\$ 3,675,875</b>	<b>\$ 26,604</b>	<b>\$ 301,418</b>	<b>\$ -</b>	<b>\$ 4,003,897</b>

Lutheran Social Services of South Dakota, Inc.  
Consolidated Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<b><u>Department of Health and Human Services:</u></b>				
Direct Programs:				
1810/1770				
1750/1751	Refugee and Entrant Assistance -			
1821/1822	State Administered Programs	93.566	\$ 723,927	\$ 66,758
5553	Basic Center Grant	93.623	91,957	-
	COVID-19 Basic Center Grant	93.623	12,530	-
5650	Transitional Living for Homeless Youth	93.557	73,541	-
1650	Refugee and Entrant Assistance Wilson/Fish Program	93.583	10,127	-
	Refugee and Entrant Assistance Discretionary Grants			
1610	Refugees in Skilled Employment	93.576	154,526	-
1895	COVID-19 - Preferred Communities Supplemental Allocation	93.576	14,841	-
	Total Refugee and Entrant Assistance Discretionary Grants		<u>169,367</u>	<u>-</u>
Passed through South Dakota Department of Health				
5902	Affordable Care Act Personal Responsibility Education Programs	93.092	148,637	-
5904	Title V State Sexual Risk Avoidance Education Programs	93.235	66,996	-
5905	Sexual Risk Avoidance Education	93.060	41,761	-
5905	Maternal and Child Health Services Block Grant to the States	93.994	2,784	-
Passed through South Dakota Department of Social Services				
5900/5901	John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	273,337	-
	Child Care and Development Fund Cluster			
0037/0040	COVID 19 - Child Care and Development Block Grant	93.575	48,300	-
0045				
2715	Mental Health Disaster Assistance and Emergency Mental Health	93.982	23,432	-
	Total Department of Health and Human Services		<u>1,686,696</u>	<u>66,758</u>
<b><u>Department of State:</u></b>				
Passed through United States Conference of Catholic Bishops, Migration and Refugee Services				
1620/1625	U.S. Refugee Admissions Program	19.510	6,033	-
Passed through Lutheran Immigration and Refugee Service				
1800/1801				
1895	U.S. Refugee Admissions Program	19.510	35,252	-
	Total Department of State		<u>41,285</u>	<u>-</u>

Lutheran Social Services of South Dakota, Inc.  
Consolidated Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<b><u>Department of Agriculture:</u></b>				
Passed through South Dakota Division of Elementary and Secondary Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	\$ 61,128	\$ -
National School Lunch Program	10.555	6140100	<u>110,057</u>	<u>-</u>
Total Child Nutrition Cluster			171,185	-
Child and Adult Care Food Program	10.558	6140100	<u>21,410</u>	<u>-</u>
Total Department of Agriculture			<u>192,595</u>	<u>-</u>
<b><u>Department of Homeland Security:</u></b>				
Direct Program:				
1845    Citizenship Education and Training	97.010		112,668	-
Passed through South Dakota Department of Social Services				
2715    Crisis Counseling	97.032	20SC08B632	<u>10,361</u>	<u>-</u>
Total Department of Homeland Security			<u>123,029</u>	<u>-</u>
<b><u>Department of Justice:</u></b>				
Direct Programs:				
1213    Second Chance Act Reentry Initiative	16.812		62,819	-
1218    Children of Incarcerated Parents Web Portal	16.832		103,732	-
Passed through South Dakota Department of Corrections				
3370/3377    Juvenile Justice and Delinquency 5554/5664    Prevention	16.540	2020-JFFX-0001 2021-JFFX-0001	65,784	-
Passed through South Dakota Network Against Family Violence and Sexual Assault				
1216    Justice Systems Response to Families	16.021	2018-FJ-AX-0012	75,292	-
Passed through South Dakota Department of Public Safety				
Crime Victim Assistance	16.575	21SC084650	88,825	-
Sexual Assault Services Formula Program	16.017	21SC084650	<u>45,261</u>	<u>-</u>
Total Department of Justice			<u>441,713</u>	<u>-</u>
<b><u>Department of Education:</u></b>				
Passed through South Dakota Department of Education				
0052    Twenty-First Century Community Learning Centers	84.287	S287C200042	151,448	-
Passed through South Dakota Department of Labor				
1850    Adult Education - Basic Grants to States	84.002	20-AB-005	<u>151,326</u>	<u>-</u>
Total Department of Education			<u>302,774</u>	<u>-</u>

Lutheran Social Services of South Dakota, Inc.  
Consolidated Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Labor:</u>				
Passed through South Dakota Department of Labor WIOA Cluster				
1852 WIOA Dislocated Worker Formula Grants	17.258	Unknown	\$ 60	\$ -
<u>Department of Treasury</u>				
Passed through South Dakota Housing Development Authority				
6615 COVID-19 - Coronavirus Relief Fund	21.019	Unknown	137,963	-
Passed through South Dakota Department of Labor				
1853 COVID-19 - Coronavirus Relief Fund	21.019	Unknown	10,067	-
Total COVID-19 - Coronavirus Relief Fund			<u>148,030</u>	<u>-</u>
6618/6619 COVID-19 -Emergency Rental Assistance Program	21.023	ERA2 - LSS 2021 - LSS	182,281	-
Total Department of Treasury			<u>330,311</u>	<u>-</u>
<u>Department of Housing and Urban Development:</u>				
Passed through South Dakota Housing Development Authority				
6620 Housing Counseling Assistance Program	14.169	HC200841003	121,799	-
Total Federal Financial Assistance			<u>\$ 3,240,262</u>	<u>\$ 66,758</u>

**Note 1 - Basis of Presentation**

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of Lutheran Social Services of South Dakota, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Organization.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3 - Indirect Cost Rate**

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

**Note 4 - Child Nutrition Cluster**

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

**Note 5 - Crime Victim Assistance and Sexual Assault Services Program**

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of South Dakota, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal controls, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

**Compliance and Other Matters**

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

**Entity's Response to Finding**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota  
December 7, 2021



**Independent Auditor’s Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited Lutheran Social Services of South Dakota, Inc.’s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization’s major federal programs for the year ended June 30, 2021. The Organization’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

The Organization’s consolidated financial statements include the operations of Lutheran Housing Corporation/North Sioux City Inc. and Lutheran Housing Corporation/Prairie Lake Apartments, which are nonprofit South Dakota corporations under common control (collectively, Housing Corporations). The Housing Corporations received \$3,538,612 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2021. Our audit, described below, did not include the operations of these Housing Corporations which required separate U.S. Department of Housing and Urban Development audits performed in accordance with the Uniform Guidance as of December 31, 2020.

**Management’s Responsibility**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

### **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-007 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-002, 2021-003, 2021-004, 2021-005, 2021-006, and 2021-008 to be significant deficiencies.

The Organization's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
December 7, 2021

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

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

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing / CFDA Number</u>
Refugee and Entrant Assistance - State Administered Programs	93.566
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674
COVID-19 -Emergency Rental Assistance Program	21.023
Adult Education - Basic Grants to States	84.002
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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**Finding 2021-001      Preparation of Financial Statements and Material Audit Adjustments  
Material Weakness**

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

*Condition:* As auditors, we proposed material audit adjustments relating to the classification of refundable advances, contributions with donor restrictions, and contributions without donor restrictions that would not have been identified as a result of the Organization’s existing internal controls. The Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes. As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements.

*Cause:* Two significant transactions relating to grants and donor restricted contributions were not recorded correctly and the review process did not detect the misapplied non-profit accounting. Management has elected to have the consolidated financial statements and footnotes prepared by Eide Bailly LLP as part of the audit.

*Effect:* The preparation of the consolidated financial statements as a part of the audit engagement may result in consolidated financial statements and accompanying notes to the consolidated financial statements not being available for management purposes as timely as it would be if prepared by Organization personnel.

*Recommendation:* Management and the Board should continually be aware of the financial reporting of the Organization and changes in reporting requirements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor’s involvement in its consolidated financial statements condition because of cost or other considerations.

*Views of Responsible Officials:* Management is in agreement.

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**Section III – Federal Award Findings and Questioned Costs**

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**Finding 2021-002**      **Administration for Children and Families**  
**Federal Assistance Listing/CFDA #93.566, 1801SDRSOC, 10/1/2017 – 9/30/2019**  
**Federal Assistance Listing/CFDA #93.566, 1901SDRSOC, 10/1/2018 – 9/30/2020**  
**Federal Assistance Listing/CFDA #93.566, 2002SDRCMA, 10/1/2019 – 9/30/2020**  
**Refugee and Entrant Assistance – State Administered Programs**

**Allowable Costs / Costs Principles and Activities Allowed or Unallowed**  
**Significant Deficiency in Internal Control over Compliance**

*Criteria:* The Organization is required to have procedures in place to assure that federal awards are expended only for allowable costs in accordance with Subpart E – Cost Principles of the Uniform Guidance. Allowable costs are supported by appropriate documentation and correctly charged as to account, amount, and period. 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. 2 CFR 200.430(i) establishes the standards for documentation of personnel expenses including charges to federal awards for salaries and wages. Charges must be based on records that accurately reflect the work performed with the records meeting the following standards:

- A) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- B) Be incorporated into the office records of the non-federal entity.
- C) Reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities.
- D) Encompass both federally assisted and all other activities compensated by the non-federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy.
- E) Comply with the established accounting policies and practices of the non-federal entity.
- F) Support the distribution of the employee's salary or wages among specific activities or cost objectives.
- G) Budget estimates alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

*Condition:* We noted the following during testing:

- a) The federal time tracker did not properly reflect the employees federal vs. nonfederal hours worked relating to paid time off, however amounts charged to the grant were correctly calculated. (two instances)
- b) A miscalculation was identified within the federal time tracker for total hours which affected the payroll expenses allocated to the grant. (one instance)
- c) An employee's payroll expenses were not properly allocated to the grant in accordance with the federal time tracker. (one instance)
- d) The September occupancy allocation percentage was miscalculated due to a manual error identified within the allocation spreadsheet.

*Cause:* Federal time trackers were not properly completed to ensure all federal and nonfederal hours are reported. An allocation of an employee's payroll expenses was not properly allocated due to the employee being part-time and working in a different program from her normal program. In addition, the manual process for allocating occupancy costs increases the risk of errors.

*Effect:* Lack of compliance with designed internal controls over tracking federal and nonfederal hours may produce records that do not accurately reflect the work performed by an employee. Costs may be improperly allocated to a federal award if records do not accurately reflect the work performed by an employee and the allocation spreadsheet does not properly reflect the employee hours worked by federal grant.

*Questioned Costs:* \$155

*Context:* A nonstatistical sample of 32 payroll disbursements out of a total of approximately 984 salary disbursements were tested which accounted for \$19,888 out of \$369,632 of salary disbursements. In addition, a nonstatistical sample of 5 employee benefit disbursements out of a total of approximately 3,663 employee benefit disbursements were tested which accounts for \$16 out of \$73,648 of employee benefit disbursements. A nonstatistical sample of 8 occupancy allocations out of 43 total occupancy allocations were tested which accounted for \$37,220 out of \$101,560 of occupancy allocation program expenditures.

*Repeat Finding from Prior Year:* Yes, prior year finding 2020-002

*Recommendation:* We recommend that management review the process over tracking hours worked with related program employees and review the process surrounding the monthly occupancy allocation computation to ensure proper calculation of these expenditures.

*View of Responsible Officials:* Management is in agreement.

**Finding 2021-003      Administration for Children and Families  
Federal Assistance Listing/CFDA #93.566, 2101SDRSSS, 10/1/2020 – 9/30/2023  
Refugee and Entrant Assistance – State Administered Programs**

**Subrecipient Monitoring  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. 2 CFR 200.322 identifies the requirements for all pass-through entities which include the following:

- A) Evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring,
- B) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that the subaward performance goals are achieved.
- C) Verify that every subrecipient is audited as required by Subpart F – Audit Requirements.

*Condition:* The Organization did not perform an evaluation of the risk of noncompliance of the subrecipients and adequate monitoring activities of the subrecipient were not completed during the grant year from October 1, 2020 through September 30, 2021. In addition, there was no formal documentation in place to verify the subrecipient audit reports were reviewed during the grant year from October 1, 2020 through September 30, 2021.

*Cause:* The established procedures in place did not occur during the grant year due to time constraints caused by COVID-19 complexities and priorities.

*Effect:* Inadequate controls over this area of compliance including not retaining supporting documentation may make it difficult for the Organization to demonstrate the program is in compliance with laws, regulations, and other compliance requirements.

*Questioned Costs:* None reported

*Context:* Both subrecipients who received funds through this program were tested.

*Repeat Finding from Prior Years:* No

*Recommendation:* We recommend that management review the procedures and control processes over subrecipient monitoring to ensure compliance with the federal requirements noted above.

*View of Responsible Officials:* Management is in agreement.

**Finding 2021-004      Administration for Children and Families  
Federal Assistance Listing/CFDA #93.566, 2101SDRSSS, 10/1/2020 – 9/30/2023  
Refugee and Entrant Assistance – State Administered Programs**

**Reporting  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. 2 CFR Part 170 establishes requirements for recipients' reporting of information on subawards as required by the Federal Funding Accountability and Transparency Act of 2006 (FFATA).

*Condition:* The Organization did not complete the required reporting of first-tier subawards under the Federal Funding Accountability and Transparency Act Subaward Reporting System within the required 30 day period after a signed subrecipient agreement is effective. In addition, no formal documentation was retained to support review of the information reported within the system.

*Cause:* Management had an informal, undocumented review process in place over FFATA reporting and management was unaware of the 30-day reporting requirement.

*Effect:* Ineffective controls over this area of compliance could result in a reasonable possibility that the Organization would not be in compliance with the federal award as it relates to FFATA reporting.

*Questioned Costs:* None reported

*Context:* The FFATA reports for both subrecipients who received funds through this program were tested.

*Repeat Finding from Prior Years:* No

*Recommendation:* We recommend that management document their procedures and control processes as it relates to FFATA reporting.

*Views of Responsible Officials:* Management is in agreement.

**Finding 2021-005      Administration for Children and Families  
Passed Through South Dakota Department of Social Services  
Federal Assistance Listing/CFDA #93.674, 21SC086601, 6/1/2020 – 5/31/2021  
John H. Chafee Foster Care Program for Successful Transition to Adulthood**

**Procurement, Suspension, and Debarment  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in 2 CFR 200.317 through 200.327. 2 CFR 200 Appendix II requires certain provisions be included in contracts if criteria are met. As outlined in 2 CFR 180, recipients must not utilize any vendor which is suspended or debarred or is otherwise excluded from the central contractor registry.

*Condition:* The Organization's written procurement policy does not include all the required elements as outlined in the Uniform Guidance. Two instances where the contracts tested for procurement did not contain the required contract provisions in accordance with Uniform Guidance. In addition, documentation was not retained to support the vendors of the contracts were checked against the central contractor registry prior to contract inception or on a periodic basis to ensure that the vendor was not suspended or debarred.

*Cause:* Management of the Organization overlooked the required elements of a procurement policy and contract provisions were not evaluated compared to Uniform Guidance contract requirements. In addition, documentation was not retained to support suspension and debarment in accordance with Uniform Guidance.

*Effect:* Without a written procurement policy in accordance with the Uniform Guidance and entering into contracts without the required contract provisions in accordance with Uniform Guidance, demonstrating that the program complies with laws, regulations, and other compliance requirements is difficult. In addition, without retaining supporting documentation verifying parties are not suspended or debarred, it is a reasonable possibility the Organization would contract with ineligible parties.

*Questioned Costs:* None reported

*Context:* A non-statistical sample of 2 out of 4 contracts and lease agreements with expenditures over the micro-purchase threshold and over the \$25,000 threshold were tested.

*Repeat Finding from Prior Year:* No

*Recommendation:* We recommend that management implement procedures and control processes to comply with the federal requirements noted above.

*Views of Responsible Officials:* Management is in agreement.

**Finding 2021-006      Administration for Children and Families  
Passed Through South Dakota Department of Social Services  
Federal Assistance Listing/CFDA #93.674, 21SC086601, 6/1/2020 – 5/31/2021  
John H. Chafee Foster Care Program for Successful Transition to Adulthood**

**Matching  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* 2CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award. In addition, 2 CFR 200.306 establishes that matching funds must be verifiable from the non-federal entity's records and are allowable under Subpart E – Cost Principles.

*Condition:* The Organization claimed their own space used during their fall independent living workshops and claimed additional match relating to supervisor hours during these workshops.

*Cause:* The Organization overlooked details of the workshops and the In-Kind Agreement when recording match items within the match tracking spreadsheet and the review process did not detect the calculation errors.

*Effect:* Lack of compliance with designed internal controls over match expenditures make it reasonably possible that disallowed expenditures could be used as match expenditures.

*Questioned Costs:* None reported. The Organization remained in compliance with the matching requirement.

*Context:* A nonstatistical sample of 13 transactions out of 84 total transactions were selected for testing which accounted for \$9,988 out of \$26,236 of match expenditures.

*Repeat Finding from Prior Year:* No

*Recommendation:* We recommend that management review the procedures and control processes over matching to ensure compliance with the federal requirements noted above.

*Views of Responsible Officials:* Management is in agreement.

**Finding 2021-007**      **U.S. Department of Education**  
**Passed Through South Dakota Department of Labor**  
**Federal Assistance Listing/CFDA #84.002, 20-AB-005, 7/1/2020 – 6/30/2021**  
**Adult Education – Basic Grants to States**

**Eligibility**  
**Material Weakness in Internal Control over Compliance**

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

*Condition:* The Organization does not have procedures and controls in place to verify eligibility of individuals after the initial intake form is completed by an employee.

*Cause:* No formal documented review is in place to verify eligibility of individuals being served under this program.

*Effect:* Without establishing a formal review process over eligibility, it is reasonably possible that the Organization would provide services to ineligible participants.

*Questioned Costs:* None reported

*Context:* A nonstatistical sample of 60 adult case files out of 287 adult case files were selected for testing.

*Repeat Finding from Prior Years:* No

*Recommendation:* We recommend that management implement procedures and control processes to comply with the federal requirements noted above.

*Views of Responsible Officials:* Management is in agreement.

**Finding 2021-008**      **U.S. Department of the Treasury**  
**Passed Through South Dakota Housing Development Authority**  
**Federal Assistance Listing/CFDA #21.023, 2021-LSS, 2/19/2021 – 12/31/2021**  
**COVID-19 Emergency Rental Assistance Program**

**Eligibility**  
**Significant Deficiency in Internal Control over Compliance**

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

*Condition:* An individual's household income was not properly supported with income documentation.

*Cause:* The individual's household income was not properly decreased after the Organization was made known the individual would not receive another paycheck.

*Effect:* An individual's household income reported was not properly supported with income documentation.

*Questioned Costs:* None reported as the individual household remained eligible.

*Context:* A nonstatistical sample of 7 household files out of 33 household files were selected for testing.

*Repeat Finding from Prior Years:* No

*Recommendation:* We recommend that management implement procedures and control processes to comply with the federal requirements noted above.

*Views of Responsible Officials:* Management is in agreement.

Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
June 30, 2021

Prepared by Management of  
**Lutheran Social Services of South Dakota**

## Summary Schedule of Prior Audit Findings

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### Financial Statement Findings

None

### Findings – Federal Awards

#### **Finding 2020-001 Allowable Costs / Costs Principles and Activities Allowed or Unallowed**

**Passed Through South Dakota Department of Social Services**

**CFDA 93.674**

**John H. Chafee Foster Care Program for Successful Transition to Adulthood**

*Initial Fiscal Year Finding Occurred: 2017*

Finding Summary: The indirect costs for one month were calculated by using the wrong indirect cost rate based on review of the grant award.

*Status:* Resolved - The billing spreadsheet was updated to use the correct indirect rate.

#### **Finding 2020-002 Allowable Costs / Costs Principles and Activities Allowed or Unallowed**

**Administration For Children and Families**

**CFDA 93.566**

**Refugee and Entrant Assistance – State Replacement Designee Administered Programs**

*Initial Fiscal Year Finding Occurred: 2020*

Finding Summary: In one instance, the federal time tracker did not properly reflect the employee's federal vs. nonfederal hours worked.

*Status:* The Organization will work with employees to ensure they understand how to appropriately complete the federal time tracker, and the process will be reviewed to determine if there is another control that can be implemented.

**Finding 2020-003 Reporting**

**Administration For Children and Families**

**CFDA 93.566**

**Refugee and Entrant Assistance – State Replacement Designee Administered Programs**

*Initial Fiscal Year Finding Occurred: 2020*

Finding Summary: An amount reported per a federal financial report did not agree to the supporting award letters for the amount of federal funds authorized from the federal agency as the amount reported was a budget amount.

*Status:* Resolved - The procedures were updated to only include dollars allocated rather than the full award budget.

**Finding 2020-004 Special Tests and Provisions**

**Passed Through Lutheran Immigration and Refugee Service**

**CFDA 19.510**

**U.S. Refugee Admissions Program**

**Passed Through United States Conference of Catholic Bishops, Migration, and Refugee Services**

**CFDA 19.510**

**U.S Refugee Admissions Program**

*Initial Fiscal Year Finding Occurred: 2020*

Finding Summary:

- a. One refugee case file was missing a copy of the back side of the social security cards for the family members.
- b. One refugee case file was missing case activity notes, 30-day assessment home visit form, home supply list, self-sufficiency plan, core services checklist, and adult acknowledgement of receipt of direct assistance for two of the six payments made on behalf of the refugee.

*Status:* Case file procedures were reviewed to ensure all documentation is retained and missing items are followed up on in a timely manner.

Findings – Financial Statement

**Finding 2021-001 Preparation of Financial Statements and Material Audit Adjustments**

Finding Summary: Two significant transactions relating to grants and donor restricted contributions were not recorded correctly and the review process did not detect the misapplied non-profit accounting principles. In addition, Lutheran Social Services requested Eide Bailly, LLP to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Procedures were reviewed with staff to provide the necessary knowledge for accurately accounting for contributions as either restricted, not restricted, or refundable advances.

Anticipated Completion Date: November 17, 2021

Findings – Federal Awards

**Finding 2021-002 Allowable Costs / Costs Principles and Activities Allowed or Unallowed**

**Administration for Children and Families**

**CFDA 93.566**

**Refugee and Entrant Assistance – State Administered Programs**

Finding Summary:

- a. Two federal time trackers did not properly reflect the employees federal vs. nonfederal hours worked, however, amounts charged to the grant were correctly calculated.
- b. A miscalculation was identified within one federal time tracker for total hours which affected the payroll expenses allocated to the grant.
- c. An employee's payroll expenses were not properly allocated to the grant in accordance with the federal time tracker in one instance.
- d. The September occupancy allocation percentage was miscalculated due to a manual error identified within the allocation spreadsheet.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: Procedures will be reviewed to determine if there are additional steps that can be taken to catch these mistakes in advance. Procedures will then be reviewed with staff to ensure they are following the correct process.

Anticipated Completion Date: December 31, 2021

**Finding 2021-003 Subrecipient Monitoring**

**Administration for Children and Families**

**CFDA 93.566**

**Refugee and Entrant Assistance – State Administered Programs**

Finding Summary: The Organization did not perform an evaluation of the risk of noncompliance of the subrecipients and adequate monitoring activities of the subrecipient were not completed during the grant year from October 1, 2020 through September 30, 2021. In addition, there was no formal documentation in place to verify the subrecipient audit reports were reviewed during the grant year from October 1, 2020 through September 30, 2021.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The process will be reviewed to ensure the Subrecipient desk review occurs during the grant year, and the review of Subrecipient audit reports is documented.

Anticipated Completion Date: December 31, 2021

**Finding 2021-004 Reporting**

**Administration for Children and Families**

**CFDA 93.566**

**Refugee and Entrant Assistance – State Administered Programs**

Finding Summary: Required reporting of first-tier subawards under the Federal Funding Accountability and Transparency Act Subaward Reporting System was not completed within the required 30 day period after a signed subrecipient agreement is effective. In addition, no formal documentation was retained to support review of the information reported within the system.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The Organization will update procedures to include documentation of the FFATA information review, and completion of the report within 30 days of the agreement effective date.

Anticipated Completion Date: December 31, 2021

**Finding 2021-005 Procurement, Suspension, and Debarment**

**Passed Through South Dakota Department of Social Services**

**CFDA 93.674**

**John H. Chafee Foster Care Program for Successful Transition to Adulthood**

Finding Summary: The Organization's written procurement policy does not include all the required elements as outlined in the Uniform Guidance. Two instances where the contracts tested for procurement did not contain the required contract provisions in accordance with Uniform Guidance. In addition, documentation was not retained to support the vendors of the contracts were checked against the central contractor registry prior to contract inception or on a periodic basis to ensure that the vendor was not suspended or debarred.

Responsible Individuals: Nathan Beyer & Amy Cravaack

Corrective Action Plan: The Organization will update procedures to ensure procurement, suspension, and debarment are evaluated when expenditures are allocated between both federal and non-federal funding sources. The Organization will also review their current procurement policy to ensure all elements of the policy are included in accordance with Uniform Guidance and the Organization will review all applicable contracts to ensure all required contract provisions in accordance with Uniform Guidance are included.

Anticipated Completion Date: December 31, 2021

**Finding 2021-006 Matching**

**Passed Through South Dakota Department of Social Services**

**CFDA 93.674**

**John H. Chafee Foster Care Program for Successful Transition to Adulthood**

Finding Summary: The Organization claimed their own space used during their fall independent living workshops and claimed additional match relating to supervisor hours during these workshops.

Responsible Individuals: Nathan Beyer, Amy Cravaack, Roslyn Stevenson

Corrective Action Plan: Procedures have been reviewed with staff on allowable costs to use as match. Effective, June 1, 2021, the match provision was removed from this program as the Organization moved from a subrecipient to a subcontractor.

Anticipated Completion Date: June 1, 2021

**Finding 2021-007 Eligibility**

**Passed Through South Dakota Department of Labor  
CFDA 84.002  
Adult Education – Basic Grants to States**

Finding Summary: The Organization does not have procedures and controls in place to verify eligibility of individuals after the initial intake form is completed by an employee.

Responsible Individuals: Tim Jurgens

Corrective Action Plan: Procedures are being reviewed to ensure eligibility is reviewed, and the review is documented.

Anticipated Completion Date: December 31, 2021

**Finding 2021-008 Eligibility**

**Passed Through South Dakota Housing Development Authority  
CFDA 21.023  
COVID-19 Emergency Rental Assistance Program**

Finding Summary: An individual's household income was not properly supported with income documentation.

Responsible Individuals: Sara Ramirez

Corrective Action Plan: Procedures are being reviewed to ensure all calculations are reviewed when the file is reviewed.

Anticipated Completion Date: December 31, 2021