



Consolidated Financial Statements
June 30, 2023 and 2022

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

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

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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 Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Lutheran Social Services of South Dakota, Inc. and consolidated affiliates as of June 30, 2023 and 2022, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, Lutheran Social Services of South Dakota, Inc. and consolidated affiliates adopted the provisions of FASB Accounting Standards Codification 842, *Leases*, as of July 1, 2022 using the modified retrospective with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Social Services of South Dakota, Inc. and consolidated affiliates' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lutheran Social Services of South Dakota, Inc. and consolidated affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Social Services of South Dakota, Inc. and consolidated affiliates' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating statements of financial position, activities, and cash flows, 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* 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 supplementary 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 our report dated November 6, 2023 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.

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

Sioux Falls, South Dakota
November 6, 2023

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

Consolidated Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 3,919,654	\$ 4,575,529
Accounts receivable - fee for service, net	1,768,145	1,351,818
Accounts receivable - grants and contracts	1,349,947	1,476,800
Promises to give, net	250,976	119,443
Prepaid expenses	133,713	81,891
Investments	5,153,833	4,342,061
Beneficial interests in assets held by community foundations	52,544	50,541
Cash limited as to use	554,796	3,092,229
Assets held under split-interest agreements	-	435,331
Operating lease right of use assets	996,459	-
Property and equipment, net	13,903,703	14,602,656
	\$ 28,083,770	\$ 30,128,299
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 505,661	\$ 338,615
Accrued liabilities	1,224,576	1,328,775
Refundable advances	776,255	1,048,918
Liabilities under split-interest agreements	-	67,581
Interest rate swap agreement	8,168	41,332
Operating lease liabilities	999,836	-
Notes payable	3,659,043	4,101,940
Total liabilities	7,173,539	6,927,161
Net Assets		
Without donor restrictions	17,164,627	17,913,689
With donor restrictions	3,745,604	5,287,449
Total net assets	20,910,231	23,201,138
	\$ 28,083,770	\$ 30,128,299

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

Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
Public support						
Contributions	\$ 582,802	\$ 883,830	\$ 1,466,632	\$ 448,335	\$ 991,700	\$ 1,440,035
Church support	130,439	44,389	174,828	158,207	58,931	217,138
United Way	591,116	886,680	1,477,796	195,849	887,742	1,083,591
Fees and grants from government agencies	18,285,069	35,700	18,320,769	18,091,475	19,817	18,111,292
Other grants	614,718	228,062	842,780	299,285	107,559	406,844
Total public support	20,204,144	2,078,661	22,282,805	19,193,151	2,065,749	21,258,900
Revenue						
Client and program income	4,265,923	-	4,265,923	4,338,768	-	4,338,768
Adoptive income	39,445	-	39,445	15,279	-	15,279
Net investment return	386,559	-	386,559	(570,620)	(59,269)	(629,889)
Rent income	190,242	-	190,242	168,076	-	168,076
Donated supplies	150,133	-	150,133	78,505	-	78,505
Unrealized gain on interest rate swap agreement	33,164	-	33,164	72,312	-	72,312
Change in value of split-interest agreements	-	67,581	67,581	-	5,534	5,534
Change in value of beneficial interests in assets held by community foundations	-	2,003	2,003	-	(7,669)	(7,669)
(Loss) / gain on disposal of property and equipment	(122,798)	-	(122,798)	12,833	-	12,833
Miscellaneous income	75,970	1,561	77,531	105,028	(344)	104,684
Total revenue	5,018,638	71,145	5,089,783	4,220,181	(61,748)	4,158,433
Net assets released from restrictions	3,691,651	(3,691,651)	-	2,557,869	(2,557,869)	-
Total public support, revenue, and other support	28,914,433	(1,541,845)	27,372,588	25,971,201	(553,868)	25,417,333

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

Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses						
Program services						
Residential services	\$ 8,634,059	\$ -	\$ 8,634,059	\$ 8,209,547	\$ -	\$ 8,209,547
Permanency services	2,117,217	-	2,117,217	2,112,557	-	2,112,557
Behavioral health	2,747,289	-	2,747,289	2,643,731	-	2,643,731
Center for New Americans	2,859,281	-	2,859,281	1,990,358	-	1,990,358
Childcare services	2,010,185	-	2,010,185	1,981,291	-	1,981,291
Center for Financial Resources	1,302,655	-	1,302,655	1,795,505	-	1,795,505
Other services	3,701,871	-	3,701,871	2,989,466	-	2,989,466
Lutheran Housing Corporations	2,792,160	-	2,792,160	167,916	-	167,916
Supporting services						
Management and general	2,744,301	-	2,744,301	2,823,860	-	2,823,860
Development and foundation	754,477	-	754,477	686,212	-	686,212
Total expenses	<u>29,663,495</u>	<u>-</u>	<u>29,663,495</u>	<u>25,400,443</u>	<u>-</u>	<u>25,400,443</u>
Change in Net Assets	(749,062)	(1,541,845)	(2,290,907)	570,758	(553,868)	16,890
Net Assets, Beginning of Year	<u>17,913,689</u>	<u>5,287,449</u>	<u>23,201,138</u>	<u>17,342,931</u>	<u>5,841,317</u>	<u>23,184,248</u>
Net Assets, End of Year	<u>\$ 17,164,627</u>	<u>\$ 3,745,604</u>	<u>\$ 20,910,231</u>	<u>\$ 17,913,689</u>	<u>\$ 5,287,449</u>	<u>\$ 23,201,138</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services								Supporting Services		Total Expenses	
	Residential Services	Pemanency Services	Behavioral Health	Center for New Americans	Childcare Services	Center for Financial Resources	Other Services	Lutheran Housing Corporations	Total Program Services	Management and General		Development and Foundation
Salaries	\$ 5,371,983	\$ 1,222,432	\$ 1,707,012	\$ 1,372,050	\$ 1,247,364	\$ 381,455	\$ 2,104,863	\$ 49,553	\$ 13,456,712	\$ 1,405,627	\$ 306,807	\$ 15,169,146
Employee health and retirement benefits	614,247	254,388	218,753	143,007	124,445	71,561	283,618	-	1,710,019	239,421	51,385	2,000,825
Payroll taxes	433,425	90,301	131,032	104,077	97,979	27,316	156,262	4,360	1,044,752	62,008	22,348	1,129,108
Travel	100,857	64,728	41,457	48,095	15,081	7,702	98,223	-	376,143	60,827	5,209	442,179
Conference and training	80,055	19,381	16,167	20,331	6,925	9,269	122,479	-	274,607	78,551	5,357	358,515
Professional fees	142,460	7,110	56,060	174,236	3,347	32,249	285,923	24,084	725,469	296,183	14,105	1,035,757
Client related expenses	663,927	276,008	20,847	615,392	131,462	700,370	172,223	-	2,580,229	12	81	2,580,322
Supplies	87,949	19,703	43,338	54,367	37,329	10,330	44,462	16,943	314,421	216,144	11,758	542,323
Communications	57,605	33,875	101,520	26,687	11,507	11,808	35,298	-	278,300	27,517	14,230	320,047
Occupancy expenses	591,234	78,068	193,637	158,146	247,060	26,928	176,909	72,146	1,544,128	74,657	12,205	1,630,990
Outside printing	343	7,215	30,856	2,478	2,700	5,686	54,342	380	104,000	374	190,596	294,970
Dues and subscriptions	946	723	5,714	12,558	508	336	2,341	-	23,126	15,631	8,826	47,583
Building & equipment maintenance	11,287	47	27	-	198	-	504	-	12,063	5	2	12,070
Uncollectibles	-	2,000	140,295	-	2,644	-	973	-	145,912	20,488	32,497	198,897
Donated supplies	43,392	-	-	-	3,802	-	9,410	-	56,604	-	42,318	98,922
Contribution of Lutheran Housing Corp. / North Sioux City, Inc.'s assets less assumption of liabilities	-	-	-	-	-	-	-	2,585,158	2,585,158	-	-	2,585,158
Miscellaneous	104,291	12,348	4,165	14,519	24,627	8,061	74,017	19,191	261,219	110,397	31,667	403,283
	8,304,001	2,088,327	2,710,880	2,745,943	1,956,978	1,293,071	3,621,847	2,771,815	25,492,862	2,607,842	749,391	28,850,095
Depreciation	330,058	28,890	36,409	113,338	53,207	9,584	80,024	20,345	671,855	136,459	5,086	813,400
	<u>\$ 8,634,059</u>	<u>\$ 2,117,217</u>	<u>\$ 2,747,289</u>	<u>\$ 2,859,281</u>	<u>\$ 2,010,185</u>	<u>\$ 1,302,655</u>	<u>\$ 3,701,871</u>	<u>\$ 2,792,160</u>	<u>\$ 26,164,717</u>	<u>\$ 2,744,301</u>	<u>\$ 754,477</u>	<u>\$ 29,663,495</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services								Supporting Services		Total Expenses	
	Residential Services	Pemanency Services	Behavioral Health	Center for New Americans	Childcare Services	Center for Financial Resources	Other Services	Lutheran Housing Corporations	Total Program Services	Management and General		Development and Foundation
Salaries	\$ 5,162,079	\$ 1,227,019	\$ 1,670,176	\$ 1,084,563	\$ 1,212,399	\$ 340,582	\$ 1,649,894	\$ 52,642	\$ 12,399,354	\$ 1,447,170	\$ 288,494	\$ 14,135,018
Employee health and retirement benefits	622,904	255,122	220,638	116,262	136,359	51,149	229,764	1,774	1,633,972	227,663	42,265	1,903,900
Payroll taxes	452,636	94,251	137,586	86,700	97,031	26,779	132,211	5,555	1,032,749	84,687	20,391	1,137,827
Travel	93,562	53,222	25,761	14,780	13,462	6,731	75,565	-	283,083	64,803	3,980	351,866
Conference and training	75,340	15,924	22,743	15,079	6,929	7,478	67,108	-	210,601	83,522	5,851	299,974
Professional fees	134,084	7,233	64,324	63,675	2,859	30,979	250,390	21,363	574,907	302,899	20,907	898,713
Client related expenses	540,585	258,024	21,179	267,683	135,982	1,257,525	278,512	-	2,759,490	3,592	-	2,763,082
Supplies	138,368	13,782	26,886	34,402	31,011	10,053	39,606	10,058	304,166	251,035	14,104	569,305
Communications	55,869	31,499	71,439	36,642	9,406	11,587	34,819	210	251,471	24,137	11,081	286,689
Occupancy expenses	531,201	125,489	249,492	18,910	282,112	25,312	62,023	85,047	1,379,586	103,177	16,796	1,499,559
Outside printing	-	4,580	18,950	3,962	2,518	8,638	49,820	13,101	101,569	8,862	190,657	301,088
Dues and subscriptions	1,306	1,075	3,864	13,951	126	125	2,396	-	22,843	21,123	2,240	46,206
Uncollectibles	-	-	77,684	1,499	2,179	-	2,691	185	84,238	6,630	1,365	92,233
Donated supplies	19,633	50	-	307	2,295	-	24,728	-	47,013	-	31,492	78,505
Miscellaneous	74,320	5,142	7,541	26,644	2,453	6,703	16,120	(14,645)	124,278	87,806	32,671	244,755
	7,901,887	2,092,412	2,618,263	1,785,059	1,937,121	1,783,641	2,915,647	175,290	21,209,320	2,717,106	682,294	24,608,720
Depreciation	307,660	20,145	25,468	205,299	44,170	11,864	73,819	(7,374)	681,051	106,754	3,918	791,723
	<u>\$ 8,209,547</u>	<u>\$ 2,112,557</u>	<u>\$ 2,643,731</u>	<u>\$ 1,990,358</u>	<u>\$ 1,981,291</u>	<u>\$ 1,795,505</u>	<u>\$ 2,989,466</u>	<u>\$ 167,916</u>	<u>\$ 21,890,371</u>	<u>\$ 2,823,860</u>	<u>\$ 686,212</u>	<u>\$ 25,400,443</u>

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

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ (2,290,907)	\$ 16,890
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	813,400	791,723
Loss / (gain) on disposal of property and equipment	122,798	(12,833)
Unrealized gain on interest rate swap agreement	(33,164)	(72,312)
Change in value of split-interest agreements	(67,581)	(5,534)
Change in value of beneficial interests in assets held by community foundations	(2,003)	7,669
Contribution of Lutheran Housing Corp. / North Sioux City, Inc.'s assets less assumption of liabilities	2,496,334	-
Non-cash contribution expense for land	88,824	-
Donated property and equipment	(51,211)	-
Realized and unrealized (gain) loss on investments	(260,208)	729,124
Change in discount on promises to give	17,428	9,170
Uncollectibles	198,897	92,233
Change in assets and liabilities		
Accounts receivable - fee for service, net	(615,224)	(161,740)
Accounts receivable - grants and contracts	126,853	(558,940)
Promises to give, net	(148,961)	(21,082)
Prepaid expenses	(51,822)	(20,012)
Operating lease assets and liabilities	3,377	-
Accounts payable	179,412	(113,146)
Accrued liabilities	(104,199)	(66,322)
Refundable advances	(272,663)	397,789
Net Cash from Operating Activities	149,380	1,012,677
Investing Activities		
Purchases of long-term investments	(5,102,943)	(2,796,577)
Sales and maturities of long-term investments	4,986,710	2,768,809
Contributions to community foundations, net of distributions	-	344
Contribution of Lutheran Housing Corp. / North Sioux City, Inc.'s assets less assumption of liabilities	(2,496,334)	-
Cash received on sale of property and equipment	5,000	15,329
Net purchases of property and equipment	(292,224)	(1,041,361)
Net Cash used for Investing Activities	(2,899,791)	(1,053,456)
Financing Activities		
Principal payments on notes payable	(442,897)	(484,656)
Collections of contributions restricted for capital	-	54,300
Net Cash used for Financing Activities	(442,897)	(430,356)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(3,193,308)	(471,135)
Beginning Cash, Cash Equivalents, and Restricted Cash	7,667,758	8,138,893
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 4,474,450	\$ 7,667,758

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
 Consolidated Statements of Cash Flows
 Years Ended June 30, 2023 and 2022

	2023	2022
Cash and Cash Equivalents	\$ 3,919,654	\$ 4,575,529
Cash Limited as to Use	554,796	3,092,229
Total Cash, Cash Equivalents, and Restricted Cash	\$ 4,474,450	\$ 7,667,758
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 172,951	\$ 183,361
Supplemental Disclosures of Noncash Investing and Financing Activities		
Property and equipment additions included in accounts payable	\$ -	\$ 12,366

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 use 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.

Center for Financial Resources

The Center for Financial Resources provides comprehensive financial counseling sessions, financial education workshops and SD CARES housing assistance to those seeking to resolve or prevent money management issues.

Other Services

The Organization provides a variety of other services, including family stabilization, independent living services, mentoring services, the Multi-Cultural Center, disaster response, and re-entry services. None of these other service programs individually exceed \$559,000 and \$538,000 of program expenses for the years ended June 30, 2023 and 2022, respectively.

Effective January 1, 2023, Lutheran Social Services of South Dakota, Inc. acquired the assets and assumed some liabilities of the Multi-Cultural Center, a nonprofit organization who operated and managed programming that provided experiences and opportunities for all people to learn, celebrate, and share through our community cultural diversity. This transaction was entered into to support diverse communities in the Sioux Falls area. The transfer of the Multi-Cultural Center was recognized at fair value, with Lutheran Social Services of South Dakota, Inc. recognizing a contribution for the excess of assets acquired over liabilities assumed within the statement of activities for the year ended June 30, 2023. Approximately \$183,000 is recognized within contribution revenue without donor restrictions and approximately \$51,000 recognized within donated supplies revenue without donor restrictions.

Principles of Consolidation

The consolidated financial statements include the accounts of Lutheran Social Services of South Dakota Foundation, Inc. (Foundation), 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 receivable – fee for service 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, 2021 was \$1,282,311.

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 uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2023 and 2022, the allowance was \$84,715 and \$83,197, respectively.

Accounts receivable – grants and contracts consist primarily of noninterest-bearing amounts due from government agencies for federal and state grants and contracts. In addition, there is a receivable due from a HUD entity as it relates to the transfer of Lutheran Housing Corporation/North Sioux City, Inc. The Organization determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2023 and 2022, the allowance was \$18,845 and \$0, respectively, which relates directly to the receivable due from a HUD entity.

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 uncollectible 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 uncollectible. There was no allowance considered necessary as of June 30, 2023 and 2022.

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 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 \$5,000 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, 2023 and 2022.

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. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank for each account ownership category. At June 30, 2023, Lutheran Social Services of South Dakota, Inc. had approximately \$3,745,000 in excess of FDIC-insured limits. At June 30, 2023, Lutheran Housing Corporation/Prairie Lake Apartments had \$0 in excess of FDIC-insured limits.

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 Foundation's board of directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Foundation's board of directors 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 or grantor 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 (or certain grantor) restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor (or grantor) 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 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.

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.

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 met. Amounts received with conditions and restrictions are recognized as revenue that increases net assets without donor restrictions if those conditions are met and restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants along with grants received from Lutheran Services of America, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue without donor restrictions when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures or meeting certain performance requirements are reported as refundable advances in the consolidated statements of financial position. There were refundable advances of \$776,255 and \$1,048,918 as of June 30, 2023 and 2022, respectively. The Organization has received cost reimbursable grants of approximately \$5,270,000 and \$3,060,000 that have not been recognized at June 30, 2023 and 2022, 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 consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received.

Donated materials and services for the years ended June 30, 2023 and 2022, were approximately \$150,000 and \$79,000, respectively.

Management estimates that volunteers donated approximately 53,700 and 49,400 hours of service in 2023 and 2022, 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.

Advertising

Advertising and promotion costs are expensed as incurred. Such costs included in outside printing expense on the consolidated statements of functional expenses were \$221,686 and \$220,957 for the years ended June 30, 2023 and 2022, respectively.

Fundraising

The Organization incurred expenses amounting to \$754,477 and \$686,212 for the years ended June 30, 2023 and 2022, respectively, related to development and fundraising. Such amounts are reflected as development and foundation expenses in the accompanying consolidated statements of activities.

Estimates

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

Income Taxes

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.

Change in Accounting Principle

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (ASC 842). The Organization elected to apply the guidance as of July 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right of use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization has elected the package of practical expedients permitted in ASC 842. Accordingly, the Organization accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC 842, (b) whether classification of the operating lease would be different in accordance with ASC 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability of \$769,887, and an operating right of use asset of \$769,887. The adoption of the new standard did not materially impact the Organization's consolidated statements of activities or consolidated statements of cash flows. See Note 9 for further disclosure of the Organization's lease contracts.

Reclassifications

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 presentation. The reclassifications had no effect on previously reported change in net assets.

Subsequent Events

The Organization has evaluated subsequent events through November 6, 2023, 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, 2023 and 2022

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.

	2023	2022
Financial assets at year end		
Cash and cash equivalents	\$ 3,919,654	\$ 4,575,529
Accounts receivable - fee for service, net	1,768,145	1,351,818
Accounts receivable - grants and contracts	1,349,947	1,476,800
Promises to give, net	250,976	119,443
Investments	5,153,833	4,342,061
Total financial assets	12,442,555	11,865,651
Less amounts not available to be used within one year		
Promises to give due after one year	(164,152)	(72,595)
Investments in non-liquid securities	(9,159)	(9,029)
Total financial assets not available to be used within one year	(173,311)	(81,624)
Donor imposed restrictions		
Restricted funds - capital projects	(119,407)	(119,407)
Internal designations		
Board designated for endowment purposes - liquid securities	(5,147,693)	(4,417,174)
Distribution of board designated endowment within one year	220,889	215,785
Designated for apartment project operations	(7,773)	(31,845)
Total internal designations	(4,934,577)	(4,233,234)
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,215,260	\$ 7,431,386

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, 2023 and 2022

Note 3 - Cash and Cash Equivalents

	2023	2022
Undesignated		
Cash on hand	\$ 2,195	\$ 2,345
Cash in checking	3,909,686	4,541,339
	3,911,881	4,543,684
Designated for apartment project operations	7,773	31,845
Total cash and cash equivalents	\$ 3,919,654	\$ 4,575,529

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2023 and 2022:

	2023	2022
Within one year	\$ 86,824	\$ 46,848
In one to five years	190,875	81,890
Total promises to give	277,699	128,738
Less discount to net present value at rates of 9.5% in 2023 and 4.5% in 2022	(26,723)	(9,295)
Promises to give, net	\$ 250,976	\$ 119,443

At June 30, 2023 and 2022, there were unconditional promises to give from employees and board members totaling \$81,075 and \$26,243, respectively. Total contribution revenues from employees and board members were \$124,184 and \$37,324 for the years ended June 30, 2023 and 2022, 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 \$186,461 and \$135,033 at June 30, 2023 and 2022, 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 \$201,315 and \$188,225 at June 30, 2023 and 2022, respectively, for which the Organization is the beneficiary. SDCF has funds totaling \$195,286 and \$185,177 at June 30, 2023 and 2022, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until distributions are received.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 5 - Investments

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 378,215	\$ 326,600
Beneficial interests in assets held by community foundations	52,544	50,541
Mutual funds - equity securities	3,164,775	2,941,294
Mutual funds - fixed income	1,430,073	1,179,262
Mutual funds - real assets	171,611	321,207
Life insurance policies	<u>9,159</u>	<u>9,029</u>
 Total investments	 <u>\$ 5,206,377</u>	 <u>\$ 4,827,933</u>

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

	<u>2023</u>	<u>2022</u>
Investments	\$ 5,153,833	\$ 4,342,061
Assets held under split-interest agreements	-	435,331
Beneficial interests in assets held by community foundations	<u>52,544</u>	<u>50,541</u>
 Total investments	 <u>\$ 5,206,377</u>	 <u>\$ 4,827,933</u>

The investment return for the years ended June 30, 2023 and 2022, consists of the following components:

	<u>2023</u>	<u>2022</u>
Interest earned, dividends received, and mutual fund capital gains reinvested	\$ 150,586	\$ 127,530
Realized and unrealized gains (losses) on securities	260,208	(729,124)
Investment fees	<u>(24,235)</u>	<u>(28,295)</u>
 Total investment return	 <u>\$ 386,559</u>	 <u>\$ (629,889)</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 - Fair Value of Investments

Assets and liabilities measured at fair value on a recurring basis at June 30, 2023 and 2022 are as follows:

	2023	2022
Mutual funds	\$ 4,766,459	\$ 4,441,763
Beneficial interests in assets held by community foundations	52,544	50,541
Total assets	\$ 4,819,003	\$ 4,492,304
Liabilities under split-interest agreements	\$ -	\$ 67,581
Interest rate swap agreement	8,168	41,332
Total liabilities	\$ 8,168	\$ 108,913

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>June 30, 2023</u>			
Mutual funds	\$ 4,766,459	\$ -	\$ -
Beneficial interests in assets held by community foundations	-	-	52,544
Total assets	\$ 4,766,459	\$ -	\$ 52,544
Interest rate swap agreement	\$ -	\$ 8,168	\$ -
<u>June 30, 2022</u>			
Mutual funds	\$ 4,441,763	\$ -	\$ -
Beneficial interests in assets held by community foundations	-	-	50,541
Total assets	\$ 4,441,763	\$ -	\$ 50,541
Liabilities under split-interest agreements	\$ -	\$ -	\$ 67,581
Interest rate swap agreement	-	41,332	-
Total liabilities	\$ -	\$ 41,332	\$ 67,581

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, 2023 and 2022

Following is a reconciliation for Level 3 assets and liabilities measured on a recurring basis for the years ended June 30, 2023 and 2022:

	Beneficial Interest in Assets Held by Community Foundations	Liabilities Under Split-Interest Agreements
Balance, July 1, 2021	\$ 58,554	\$ (73,115)
Total gains or losses		
Included in change in net assets, net of fees	(7,669)	5,534
Purchases and sales		
Sales (distributions from the CF)	(344)	-
Balance, June 30, 2022	50,541	(67,581)
Total gains or losses		
Included in change in net assets, net of fees	2,003	67,581
Balance, June 30, 2023	\$ 52,544	\$ -

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, 2023 and 2022, were \$154,408 and \$2,691,994, respectively. The June 30, 2022 balance includes insurance proceeds of \$2,531,857 relating to the Lutheran Housing Corporation/North Sioux City, Inc. 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, 2023, management believes Lutheran Housing Corporation/Prairie Lake Apartments is 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, 2023 and 2022, were \$342,872 and \$342,719, 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, 2023 and 2022, were \$57,516.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 8 - Property and Equipment

	Useful Life	2023			2022
		Cost	Accumulated Depreciation	Net	Net
Land		\$ 2,563,942	\$ -	\$ 2,563,942	\$ 2,763,942
Buildings and improvements	15 - 40 years	18,711,763	8,237,862	10,473,901	10,532,399
Furniture and equipment	7 - 14 years	2,210,610	1,637,486	573,124	697,847
Automobiles	3 - 5 years	831,516	631,514	200,002	105,159
Work in process		92,734	-	92,734	503,309
		<u>\$ 24,410,565</u>	<u>\$ 10,506,862</u>	<u>\$ 13,903,703</u>	<u>\$ 14,602,656</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 for Lutheran Housing Corporation/Prairie Lake Apartments with a federal HUD grant during a prior year was \$2,258,283 and is reflected as net assets with donor restrictions at June 30, 2023 and 2022.

The amount of property acquired for Lutheran Housing Corporation/North Sioux City with a federal HUD grant during a prior year was \$1,368,200 and was reflected as net assets with donor restrictions at June 30, 2022. In August 2020, the building owned by Lutheran Housing Corporation/North Sioux City, Inc. was destroyed by a fire. During September 2022, the Organization completed the transfer of the property of Lutheran Housing Corporation/North Sioux City, Inc. to an outside entity after receiving the necessary approvals and releases of restrictions from HUD. The transfer included the transfer of all assets and the assumption of liabilities, in exchange for the release upon assumption of a HUD Capital Advance Program Mortgage Note of \$1,368,200. A loss on disposal of property and equipment of \$111,176 and a contribution expense of \$2,585,158 was recorded relating to this transfer. During the year ended June 30, 2023, \$1,368,200 was released from restrictions relating to Lutheran Housing Corporation/North Sioux City, Inc.'s HUD Capital Advance Program Mortgage Note.

Work in process at June 30, 2023 consists of various small projects along with software being developed to help manage grants for the Center for New Americans.

Note 9 - Leases

The Organization leases certain office facilities, vehicles, and equipment for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2035 and provide for renewal options ranging from one year to five years. The Organization included in the determination of the right of use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for certain minimum increases. Also, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organization has applied the risk-free rate option to all classes of assets.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Organization elected the practical expedient to not separate lease and non-lease components for real estate, vehicle, and office equipment leases.

Total lease costs for the year ended June 30, 2023 were as follows:

Operating lease cost	\$	332,920
Short-term lease cost		67,365

Total lease expense under noncancelable leases was \$378,352 for the year June 30, 2022.

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	329,543
Right of use assets obtained in exchange for lease liabilities		
Operating leases		548,542

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

Weighted-average remaining lease term (in years)		5.42
Weighted-average discount rate		2.41%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of June 30, 2023.

Years Ending June 30,	Amount
2024	\$ 353,165
2025	240,269
2026	142,657
2027	74,441
2028	42,878
Thereafter	212,895
Total lease payments	1,066,305
Less interest	(66,469)
Present value of lease liabilities	\$ 999,836

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Future minimum payments determined under the guidance in ASC 840 are listed below as of June 30, 2022.

Years Ending June 30,	Amount
2023	\$ 192,022
2024	162,788
2025	110,659
2026	42,969
2027	1
Thereafter	66
Total lease payments	\$ 508,505

Note 10 - Line of Credit

A line-of-credit agreement has been executed in the total amount of \$1,500,000 on a revolving basis. This line-of-credit expires on May 1, 2024 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 (9.50% as of June 30, 2023). The line of credit was unused as of June 30, 2023 and 2022.

Note 11 - Notes Payable

	2023	2022
Variable rate (3.31% at date paid in full) 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)	\$ -	\$ 17,932
Variable rate (4.56% at June 30, 2023) 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	1,058,226	1,315,106
Adjustable rate (7.45% until March 4, 2028) note payable to Premier Bank, due in monthly installments of \$2,657, including interest, due March 1, 2033, secured by real property (New Alternatives)	241,316	259,059
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)	830,708	853,444
4.24% note payable to First Interstate Bank, due in monthly installments of \$16,361, including interest, through August 21, 2027, when full payment is due, secured by real property (Fishback Campus for Opportunity)	1,528,793	1,656,399
	\$ 3,659,043	\$ 4,101,940

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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 \$33,164 and \$72,312 relating to the agreement for the years ended June 30, 2023 and 2022, 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, 2023 and 2022 of \$8,168 and \$41,332, respectively.

Interest expense included in occupancy expense on the consolidated statements of functional expenses for the years ended June 30, 2023 and 2022 was \$172,951 and \$183,361, respectively.

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

2024	\$	446,462
2025		468,366
2026		491,170
2027		407,490
2028		1,012,250
Thereafter		<u>833,305</u>
	\$	<u>3,659,043</u>

Note 12 - Contingency

Paycheck Protection Program (PPP) Loan Review

Loans issued under the PPP were subject to good-faith certifications of the necessity of the loan request. Borrowers with loans issued under the program in excess of \$2 million are subject to review by the SBA for compliance with the program requirements. The Organization applied for and received loan forgiveness from the SBA on its PPP Loan in the year ended June 30, 2021. In accordance with PPP Loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP Loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of the review.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 - Net Assets

Net assets as of June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Without donor restrictions		
Designated by the board of the foundation for endowment purposes	\$ 5,085,414	\$ 4,306,398
Designated for apartment project operations (checking account)	7,773	31,845
Undesignated	<u>12,071,440</u>	<u>13,575,446</u>
Total without donor restrictions	<u>17,164,627</u>	<u>17,913,689</u>
With donor restrictions		
Subject to expenditure for specified purpose		
Community services	493,721	516,744
Children and youth programs	142,949	68,820
Other services	130,694	81,894
Capital assets	<u>2,258,283</u>	<u>3,626,483</u>
	<u>3,025,647</u>	<u>4,293,941</u>
Subject to the passage of time		
Assets held under split-interest agreements	-	367,750
United Way contributions	454,898	476,027
Assets held by community foundations	52,544	50,541
Promises to give	<u>212,515</u>	<u>99,190</u>
	<u>719,957</u>	<u>993,508</u>
Total with donor restrictions	<u>3,745,604</u>	<u>5,287,449</u>
Total net assets	<u>\$ 20,910,231</u>	<u>\$ 23,201,138</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Net assets were released from donor restrictions by incurring the expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended June 30, 2023 and 2022:

	2023	2022
United Way contributions	\$ 907,808	\$ 823,533
Assets held under split-interest agreements	435,331	-
Assets held by community foundations	-	25,741
Promises to give	151,572	81,735
Community services	636,666	1,298,910
Children and youth programs	76,470	101,674
Other services	115,604	156,976
Capital campaign - future development	-	69,300
Property acquired with federal HUD grants	1,368,200	-
Total net assets released from restrictions	\$ 3,691,651	\$ 2,557,869

Note 14 - Endowments

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.

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, 2023 and 2022

The endowment net asset composition and changes in the endowment net assets for the year ended June 30, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,085,414	\$ -	\$ 5,085,414
Endowment net assets, June 30, 2022	\$ 4,306,398	\$ -	\$ 4,306,398
Contributions	129,187	-	129,187
Net investment return			
Investment income	142,561	-	142,561
Net realized and unrealized appreciation	260,208	-	260,208
Fees	(24,235)	-	(24,235)
Appropriation of endowment assets for expenditure	(212,403)	-	(212,403)
Transfer to board-designated endowment	483,698	-	483,698
Endowment net assets, June 30, 2023	\$ 5,085,414	\$ -	\$ 5,085,414

The endowment net asset composition and changes in the endowment net assets for the year ended June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,306,398	\$ -	\$ 4,306,398
Endowment net assets, July 1, 2021	\$ 4,795,305	\$ -	\$ 4,795,305
Contributions	83,654	-	83,654
Net investment return			
Investment income	112,760	-	112,760
Net realized and unrealized depreciation	(669,855)	-	(669,855)
Fees	(28,296)	-	(28,296)
Appropriation of endowment assets for expenditure	(206,928)	-	(206,928)
Transfer to board-designated endowment	219,758	-	219,758
Endowment net assets, June 30, 2022	\$ 4,306,398	\$ -	\$ 4,306,398

Investment and Spending Policies

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 Foundation's 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.

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.

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 15 - Pension Plan

The Organization sponsors a 401(k) defined contribution pension plan (the Plan) covering substantially all employees. The Plan provides that employees who have attained the age of 18 may voluntarily contribute a percentage of their earnings to the Plan, up to the maximum contribution allowed by the IRS.

Effective January 1, 2022, substantially all employees are immediately eligible for the employer contributions which are discretionary and are determined and authorized each plan year. The Organization contributes up to 3% of the respective employees' base pay to the Plan starting January 1, 2022. Prior to January 1, 2022, employees who worked over 1,000 hours per year, excluding fee-based employees were eligible for the employer contributions which were discretionary and were determined and authorized each plan year. The Organization contributed up to 2% of the respective employees' base pay to the Plan. Pension expense was \$163,484 and \$136,025 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022

**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, 2023

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 3,905,028	\$ 6,853	\$ 7,773	\$ -	\$ 3,919,654
Accounts receivable - fee for service, net	1,736,764	-	31,381	-	1,768,145
Accounts receivable - grants and contracts	1,349,947	-	-	-	1,349,947
Promises to give, net	250,976	-	-	-	250,976
Prepaid expenses	133,713	-	-	-	133,713
Investments	3,834	5,149,999	-	-	5,153,833
Beneficial interests in assets held by community foundations	52,544	-	-	-	52,544
Cash limited as to use	400,388	-	154,408	-	554,796
Operating lease right of use assets	996,459	-	-	-	996,459
Property and equipment, net	13,762,435	-	141,268	-	13,903,703
	<u>\$ 22,592,088</u>	<u>\$ 5,156,852</u>	<u>\$ 334,830</u>	<u>\$ -</u>	<u>\$ 28,083,770</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 478,271	\$ -	\$ 27,390	\$ -	\$ 505,661
Accrued liabilities	1,217,549	-	7,027	-	1,224,576
Refundable advances	776,255	-	-	-	776,255
Interest rate swap agreement	8,168	-	-	-	8,168
Operating lease liabilities	999,836	-	-	-	999,836
Notes payable	3,659,043	-	-	-	3,659,043
	<u>7,139,122</u>	<u>-</u>	<u>34,417</u>	<u>-</u>	<u>7,173,539</u>
Net Assets					
Without donor restrictions	14,037,083	5,085,414	(1,957,870)	-	17,164,627
With donor restrictions	1,415,883	71,438	2,258,283	-	3,745,604
	<u>15,452,966</u>	<u>5,156,852</u>	<u>300,413</u>	<u>-</u>	<u>20,910,231</u>
	<u>\$ 22,592,088</u>	<u>\$ 5,156,852</u>	<u>\$ 334,830</u>	<u>\$ -</u>	<u>\$ 28,083,770</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Financial Position
Year Ended June 30, 2022

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 4,454,914	\$ 88,770	\$ 31,845	\$ -	\$ 4,575,529
Accounts receivable - fee for service, net	1,350,447	-	1,371	-	1,351,818
Accounts receivable - grants and contracts	1,476,800	-	-	-	1,476,800
Due from related entity	41,877	-	-	(41,877)	-
Promises to give, net	119,443	-	-	-	119,443
Prepaid expenses	81,891	-	-	-	81,891
Investments	4,628	4,337,433	-	-	4,342,061
Beneficial interests in assets held by community foundations	50,541	-	-	-	50,541
Cash limited as to use	400,235	-	2,691,994	-	3,092,229
Assets held under split-interest agreements	-	435,331	-	-	435,331
Property and equipment, net	14,241,043	-	361,613	-	14,602,656
	<u>\$ 22,221,819</u>	<u>\$ 4,861,534</u>	<u>\$ 3,086,823</u>	<u>\$ (41,877)</u>	<u>\$ 30,128,299</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 320,749	\$ -	\$ 17,866	\$ -	\$ 338,615
Due to related entity	-	-	41,877	(41,877)	-
Accrued liabilities	1,320,776	-	7,999	-	1,328,775
Refundable advances	1,048,918	-	-	-	1,048,918
Liabilities under split-interest agreements	-	67,581	-	-	67,581
Interest rate swap agreement	41,332	-	-	-	41,332
Notes payable	4,101,940	-	-	-	4,101,940
	<u>6,833,715</u>	<u>67,581</u>	<u>67,742</u>	<u>(41,877)</u>	<u>6,927,161</u>
Net Assets					
Without donor restrictions	14,214,693	4,306,398	(607,402)	-	17,913,689
With donor restrictions	1,173,411	487,555	3,626,483	-	5,287,449
	<u>15,388,104</u>	<u>4,793,953</u>	<u>3,019,081</u>	<u>-</u>	<u>23,201,138</u>
	<u>\$ 22,221,819</u>	<u>\$ 4,861,534</u>	<u>\$ 3,086,823</u>	<u>\$ (41,877)</u>	<u>\$ 30,128,299</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2023

	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	\$ 453,615	\$ 883,830	\$ 129,187	\$ -	\$ -	\$ -	\$ -	\$ 1,466,632
Church support	130,439	44,389	-	-	-	-	-	174,828
United Way	591,116	886,680	-	-	-	-	-	1,477,796
Fees and grants from government agencies	18,285,069	35,700	-	-	-	-	-	18,320,769
Other grants	614,718	228,062	-	-	-	-	-	842,780
Total public support	<u>20,074,957</u>	<u>2,078,661</u>	<u>129,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,282,805</u>
Revenue								
Client and program income	4,265,923	-	-	-	-	-	-	4,265,923
Adoptive income	39,445	-	-	-	-	-	-	39,445
Net investment return	8,025	-	378,534	-	-	-	-	386,559
Rent income	5,574	-	-	-	184,668	-	-	190,242
Donated supplies	150,133	-	-	-	-	-	-	150,133
Unrealized gain on interest rate swap agreement	33,164	-	-	-	-	-	-	33,164
Change in value of split-interest agreements	-	-	-	67,581	-	-	-	67,581
Change in value of beneficial interests in assets held by community foundations	-	2,003	-	-	-	-	-	2,003
Loss on disposal of property and equipment	(11,622)	-	-	-	(111,176)	-	-	(122,798)
Miscellaneous income (loss)	75,970	1,561	-	-	-	-	-	77,531
Total revenue	<u>4,566,612</u>	<u>3,564</u>	<u>378,534</u>	<u>67,581</u>	<u>73,492</u>	<u>-</u>	<u>-</u>	<u>5,089,783</u>
Net assets released from restrictions	<u>1,839,753</u>	<u>(1,839,753)</u>	<u>483,698</u>	<u>(483,698)</u>	<u>1,368,200</u>	<u>(1,368,200)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>26,481,322</u>	<u>242,472</u>	<u>991,419</u>	<u>(416,117)</u>	<u>1,441,692</u>	<u>(1,368,200)</u>	<u>-</u>	<u>27,372,588</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2023

	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	\$ 8,634,059	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,634,059
Permanency services	2,117,217	-	-	-	-	-	-	2,117,217
Behavioral health	2,747,289	-	-	-	-	-	-	2,747,289
Center for New Americans	2,859,281	-	-	-	-	-	-	2,859,281
Childcare services	2,010,185	-	-	-	-	-	-	2,010,185
Center for Financial Resources	1,302,655	-	-	-	-	-	-	1,302,655
Other services	3,701,871	-	-	-	-	-	-	3,701,871
Lutheran Housing Corporations	-	-	-	-	2,792,160	-	-	2,792,160
Supporting services								
Management and general	2,744,301	-	-	-	-	-	-	2,744,301
Development and foundation	754,477	-	-	-	-	-	-	754,477
Total expenses	<u>26,871,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,792,160</u>	<u>-</u>	<u>-</u>	<u>29,663,495</u>
Excess (Deficit) of Public Support, Revenue, and Other Support over Expenses	(390,013)	242,472	991,419	(416,117)	(1,350,468)	(1,368,200)	-	(2,290,907)
Inter-organization Transfers	<u>212,403</u>	<u>-</u>	<u>(212,403)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(177,610)	242,472	779,016	(416,117)	(1,350,468)	(1,368,200)	-	(2,290,907)
Net Assets, Beginning of Year	<u>14,214,693</u>	<u>1,173,411</u>	<u>4,306,398</u>	<u>487,555</u>	<u>(607,402)</u>	<u>3,626,483</u>	<u>-</u>	<u>23,201,138</u>
Net Assets, End of Year	<u>\$ 14,037,083</u>	<u>\$ 1,415,883</u>	<u>\$ 5,085,414</u>	<u>\$ 71,438</u>	<u>\$ (1,957,870)</u>	<u>\$ 2,258,283</u>	<u>\$ -</u>	<u>\$ 20,910,231</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2022

	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	\$ 364,681	\$ 991,700	\$ 83,654	\$ -	\$ -	\$ -	\$ -	\$ 1,440,035
Church support	158,207	58,931	-	-	-	-	-	217,138
United Way	195,849	887,742	-	-	-	-	-	1,083,591
Fees and grants from government agencies	18,091,475	19,817	-	-	-	-	-	18,111,292
Other grants	299,285	107,559	-	-	-	-	-	406,844
Total public support	<u>19,109,497</u>	<u>2,065,749</u>	<u>83,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,258,900</u>
Revenue								
Client and program income	4,338,768	-	-	-	-	-	-	4,338,768
Adoptive income	15,279	-	-	-	-	-	-	15,279
Net investment return	14,771	-	(585,391)	(59,269)	-	-	-	(629,889)
Rent income	-	-	-	-	168,076	-	-	168,076
Donated supplies	78,505	-	-	-	-	-	-	78,505
Unrealized gain on interest rate swap agreement	72,312	-	-	-	-	-	-	72,312
Change in value of split-interest agreements	-	-	-	5,534	-	-	-	5,534
Change in value of beneficial interests in assets held by community foundations	-	(7,669)	-	-	-	-	-	(7,669)
Gain on disposal of property and equipment	12,833	-	-	-	-	-	-	12,833
Miscellaneous income (loss)	105,590	(344)	-	-	(562)	-	-	104,684
Total revenue	<u>4,638,058</u>	<u>(8,013)</u>	<u>(585,391)</u>	<u>(53,735)</u>	<u>167,514</u>	<u>-</u>	<u>-</u>	<u>4,158,433</u>
Net assets released from restrictions	<u>2,338,111</u>	<u>(2,338,111)</u>	<u>219,758</u>	<u>(219,758)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and other support	<u>26,085,666</u>	<u>(280,375)</u>	<u>(281,979)</u>	<u>(273,493)</u>	<u>167,514</u>	<u>-</u>	<u>-</u>	<u>25,417,333</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2022

	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	\$ 8,209,547	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,209,547
Permanency services	2,112,557	-	-	-	-	-	-	2,112,557
Behavioral health	2,643,731	-	-	-	-	-	-	2,643,731
Center for New Americans	1,990,358	-	-	-	-	-	-	1,990,358
Childcare services	1,981,291	-	-	-	-	-	-	1,981,291
Center for Financial Resources	1,795,505	-	-	-	-	-	-	1,795,505
Other services	2,989,466	-	-	-	-	-	-	2,989,466
Lutheran Housing Corporations	-	-	-	-	167,916	-	-	167,916
Supporting services								
Management and general	2,823,860	-	-	-	-	-	-	2,823,860
Development and foundation	686,212	-	-	-	-	-	-	686,212
Total expenses	<u>25,232,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,916</u>	<u>-</u>	<u>-</u>	<u>25,400,443</u>
Excess (Deficit) of Public Support, Revenue, and Other Support over Expenses	853,139	(280,375)	(281,979)	(273,493)	(402)	-	-	16,890
Inter-organization Transfers	<u>206,928</u>	<u>(139,563)</u>	<u>(206,928)</u>	<u>139,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	1,060,067	(419,938)	(488,907)	(133,930)	(402)	-	-	16,890
Net Assets, Beginning 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>
Net Assets, End of Year	<u>\$ 14,214,693</u>	<u>\$ 1,173,411</u>	<u>\$ 4,306,398</u>	<u>\$ 487,555</u>	<u>\$ (607,402)</u>	<u>\$ 3,626,483</u>	<u>\$ -</u>	<u>\$ 23,201,138</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2023

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	\$ 64,862	\$ 362,899	\$ (2,718,668)	\$ -	\$ (2,290,907)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	793,055	-	20,345	-	813,400
Loss on disposal of property and equipment	11,622	-	111,176	-	122,798
Unrealized gain on interest rate swap agreement	(33,164)	-	-	-	(33,164)
Change in value of split-interest agreements	-	(67,581)	-	-	(67,581)
Change in value of beneficial interest in assets held by community foundations	(2,003)	-	-	-	(2,003)
Contribution of Lutheran Housing Corp. / North Sioux City, Inc.'s assets less assumption of liabilities	-	-	2,496,334	-	2,496,334
Non-cash contribution expense for land	-	-	88,824	-	88,824
Donated property and equipment	(51,211)	-	-	-	(51,211)
Realized and unrealized gain on investments	-	(260,208)	-	-	(260,208)
Change in discount on promises to give	17,428	-	-	-	17,428
Uncollectibles	198,897	-	-	-	198,897
Change in assets and liabilities					
Accounts receivable - fee for service, net	(585,214)	-	(30,010)	-	(615,224)
Accounts receivable - grants and contracts	126,853	-	-	-	126,853
Promises to give, net	(148,961)	-	-	-	(148,961)
Prepaid expenses	(51,822)	-	-	-	(51,822)
Due to/from related entities	41,877	-	(41,877)	-	-
Operating lease assets and liabilities	3,377	-	-	-	3,377
Accounts payable	169,888	-	9,524	-	179,412
Accrued liabilities	(103,227)	-	(972)	-	(104,199)
Refundable advances	(272,663)	-	-	-	(272,663)
Net Cash from (used for) Operating Activities	179,594	35,110	(65,324)	-	149,380
Investing Activities					
Purchases of long-term investments	794	(5,103,737)	-	-	(5,102,943)
Sales and maturities of long-term investments	-	4,986,710	-	-	4,986,710
Contribution of Lutheran Housing Corp. / North Sioux City, Inc.'s assets less assumption of liabilities	-	-	(2,496,334)	-	(2,496,334)
Cash received on sale of property and equipment	5,000	-	-	-	5,000
Net purchases of property and equipment	(292,224)	-	-	-	(292,224)
Net Cash used for Investing Activities	(286,430)	(117,027)	(2,496,334)	-	(2,899,791)
Financing Activities					
Principal payments on notes payable	(442,897)	-	-	-	(442,897)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(549,733)	(81,917)	(2,561,658)	-	(3,193,308)
Beginning Cash, Cash Equivalents, and Restricted Cash	4,855,149	88,770	2,723,839	-	7,667,758
Ending Cash, Cash Equivalents, and Restricted Cash	<u>\$ 4,305,416</u>	<u>\$ 6,853</u>	<u>\$ 162,181</u>	<u>\$ -</u>	<u>\$ 4,474,450</u>
Cash and Cash Equivalents	\$ 3,905,028	\$ 6,853	\$ 7,773	\$ -	\$ 3,919,654
Cash Limited as to Use	400,388	-	154,408	-	554,796
Total Cash, Cash Equivalents, and Restricted Cash	\$ 4,305,416	\$ 6,853	\$ 162,181	\$ -	\$ 4,474,450

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2022

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporations	Eliminations	Total
Operating Activities					
Change in net assets	\$ 640,129	\$ (622,837)	\$ (402)	\$ -	\$ 16,890
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	799,097	-	(7,374)	-	791,723
Gain on disposal of property and equipment	(12,833)	-	-	-	(12,833)
Unrealized gain on interest rate swap agreement	(72,312)	-	-	-	(72,312)
Change in value of split-interest agreements	-	(5,534)	-	-	(5,534)
Change in value of beneficial interest in assets held by community foundations	7,669	-	-	-	7,669
Realized and unrealized loss on investments	-	729,124	-	-	729,124
Change in discount on promises to give	9,170	-	-	-	9,170
Uncollectibles	92,233	-	-	-	92,233
Change in assets and liabilities					
Accounts receivable - fee for service, net	(159,107)	-	(2,633)	-	(161,740)
Accounts receivable - grants and contracts	(558,940)	-	-	-	(558,940)
Promises to give, net	(21,832)	750	-	-	(21,082)
Prepaid expenses	(20,012)	-	-	-	(20,012)
Due to/from related entities	106	15	(121)	-	-
Accounts payable	(97,941)	-	(15,205)	-	(113,146)
Accrued liabilities	(66,317)	-	(5)	-	(66,322)
Refundable advances	397,789	-	-	-	397,789
Net Cash from (used for) Operating Activities	936,899	101,518	(25,740)	-	1,012,677
Investing Activities					
Purchases of long-term investments	(1)	(2,796,576)	-	-	(2,796,577)
Sales and maturities of long-term investments	-	2,768,809	-	-	2,768,809
Contributions to community foundations, net	344	-	-	-	344
Cash received on sale of property and equipment	15,329	-	-	-	15,329
Net purchases of property and equipment	(1,018,361)	-	(23,000)	-	(1,041,361)
Net Cash used for Investing Activities	(1,002,689)	(27,767)	(23,000)	-	(1,053,456)
Financing Activities					
Principal payments on notes payable	(484,656)	-	-	-	(484,656)
Collections of contributions restricted for capital	54,300	-	-	-	54,300
Net Cash used for Financing Activities	(430,356)	-	-	-	(430,356)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(496,146)	73,751	(48,740)	-	(471,135)
Beginning Cash, Cash Equivalents, and Restricted Cash	5,351,295	15,019	2,772,579	-	8,138,893
Ending Cash, Cash Equivalents, and Restricted Cash	<u>\$ 4,855,149</u>	<u>\$ 88,770</u>	<u>\$ 2,723,839</u>	<u>\$ -</u>	<u>\$ 7,667,758</u>
Cash and Cash Equivalents	\$ 4,454,914	\$ 88,770	\$ 31,845	\$ -	\$ 4,575,529
Cash Limited as to Use	400,235	-	2,691,994	-	3,092,229
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 4,855,149</u>	<u>\$ 88,770</u>	<u>\$ 2,723,839</u>	<u>\$ -</u>	<u>\$ 7,667,758</u>

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Health and Human Services:				
Direct Programs:				
1810/1770				
1815/1760				
1750/1751	Refugee and Entrant Assistance -			
1821/1822	State Administered Programs	93.566	\$ 1,611,177	\$ 44,962
5553/5661	Basic Center Grant	93.623	197,910	-
5650	Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	128,388	-
1650	Refugee and Entrant Assistance Wilson/Fish Program	93.583	96,260	-
Passed through South Dakota Department of Health				
5902	Affordable Care Act Personal Responsibility Education Programs	93.092	23SC091130	191,808
5904	Title V State Sexual Risk Avoidance Education Programs	93.235	23SC091142	105,752
5905	Sexual Risk Avoidance Education	93.060	23SC091143	190,540
Passed through South Dakota Department of Social Services				
1304	Block Grants for Prevention and Treatment of Substance Abuse	93.959	23-085C-608	10,000
Passed through South Dakota Department of Public Safety				
	COVID-19 - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	2021-ARP-00023	8,978
Passed through Lutheran Immigration and Refugee Services				
1890	Refugee and Entrant Assistance		323-20-00 354-23-00AFG	
1891/1892	Voluntary Agency Programs	93.567	342-23-00	15,867
Total Department of Health and Human Services			<u>2,556,680</u>	<u>44,962</u>
Department of State:				
Passed through United States Conference of Catholic Bishops, Migration and Refugee Services				
1620/1625	U.S. Refugee Admissions Program	19.510	SPRMC020CA0024	20,882
Passed through Lutheran Immigration and Refugee Service				
1800/1801				
1802/1895				
1700	U.S. Refugee Admissions Program	19.510	323-20-00 320-21/22-00	251,000
Total U.S. Refugee Admissions Program			<u>271,882</u>	<u>-</u>

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
Department of Agriculture:				
Direct Programs:				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	10.766		\$ 853,444	\$ -
Passed through South Dakota Division of Elementary and Secondary Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	78,839	-
National School Lunch Program	10.555	6140100	124,195	-
Total Child Nutrition Cluster			203,034	-
Child and Adult Care Food Program	10.558	6140100	26,548	-
Total Department of Agriculture			1,083,026	-
Department of Homeland Security:				
Direct Program:				
1845 Citizenship Education and Training	97.010		140,482	-
Department of Justice:				
Direct Programs:				
1218 Children of Incarcerated Parents Web Portal	16.832		239,295	-
Passed through South Dakota Department of Corrections				
3370/3377 Juvenile Justice and Delinquency 5554/5664 Prevention	16.540	2018-JJFX-20 2019MUF0019	44,562	-
Passed through South Dakota Network Against Family Violence and Sexual Assault				
1216 Justice Systems Response to Families	16.021	15JOVW-22-GG- 00218-JJFX	88,449	-
Passed through South Dakota Department of Public Safety				
Sexual Assault Services Formula Program	16.017	2023-COMBO-00055	15,319	-
Total Department of Justice			387,625	-
Department of Education:				
Passed through South Dakota Department of Education				
0052 Twenty-First Century Community Learning Centers	84.287	S287C220042	149,722	-
Passed through South Dakota Department of Labor				
1850 Adult Education - Basic Grants to States	84.002	23-AB-006	258,959	-
Total Department of Education			408,681	-

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Treasury</u>				
Passed through South Dakota Housing Development Authority				
6615 COVID-19 - Coronavirus Relief Fund	21.019	Unknown	\$ 241,152	\$ -
6618/6619 COVID-19 -Emergency Rental Assistance Program	21.023		<u>603,258</u>	<u>-</u>
Total Department of Treasury			<u>844,410</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	HC220841001	<u>149,603</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 5,842,389</u>	<u>\$ 44,962</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, 2023. 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 - Sexual Assault Services Program

Federal reimbursements for 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.

Note 6 - Loans Outstanding

Total expenditures as reported on the consolidated schedule of expenditures of federal awards under the Rural Development Program Community Facilities Loans and Grants represent the beginning of the year loan balance. There were no loan advances during the year ended June 30, 2023. As of June 30, 2023, the Organization has a \$830,708 outstanding loan balance with the United States Department of Agriculture.



**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 (*Government Auditing Standards*), 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, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 6, 2023.

Report on 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 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 was for the limited purpose described in the first 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 were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on 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*.

Organization's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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
November 6, 2023



**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

Qualified and Unmodified Opinions

We have audited Lutheran Social Services of South Dakota, Inc.’s (the Organization) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

Qualified Opinion on Refugee and Entrant Assistance- State Administered Programs

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Refugee and Entrant Assistance – State Administered Programs for the year ended June 30, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2023.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Matter(s) Giving Rise to Qualified Opinion on Refugee and Entrant Assistance – State Administered Programs

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Assistance Listing #93.566 Refugee and Entrant Assistance – State Administered Programs described in finding 2023-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The Organization's consolidated financial statements include the operations of Lutheran Housing Corporation/Prairie Lake Apartments, which is a nonprofit South Dakota corporation under common control (Housing Corporation). The Housing Corporation received \$2,099,182 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2023. Our compliance audit, described in the "Qualified and Unmodified Opinions", does not include the operations of the Housing Corporation which required a separate U.S. Department of Housing and Urban Development audit performed in accordance with the Uniform Guidance as of December 31, 2022.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and another that we consider to be a significant deficiency.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-003 and 2023-004 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's responses to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the other 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.

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

Sioux Falls, South Dakota
November 6, 2023

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
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:	(A)
(A) Qualified for Refugee and Entrant Assistance - State Administered Programs and Unmodified for Community Facilities Loans and Grants Cluster and Unmodified for COVID-19 - Emergency Rental Assistance Program	
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Refugee and Entrant Assistance - State Administered Programs	93.566
Community Facilities Loans and Grants Cluster	10.766
COVID-19 -Emergency Rental Assistance Program	21.023
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**Finding 2023-001 Preparation of Financial Statements and Audit Adjustments
Significant Deficiency**

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.

Condition: As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. In addition, we assisted with the implementation of Accounting Standards Update No. 2016-02, *Leases* (ASC 842) including disclosures relating to the new standard. We also proposed an audit adjustment relating to refundable advances and contributions with donor restrictions and assisted with reclassifying the recorded loss relating to the HUD corporation transfer transaction, nonroutine in nature.

Cause: Management has elected to have the consolidated financial statements and footnotes prepared by Eide Bailly LLP as part of the audit. Assistance with implementation of the Lease standard and the HUD corporation transaction is not unusual as these items are unique and not recurring transactions for the Organization.

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.

Section III – Federal Award Findings and Questioned Costs

**Finding 2023-002 Administration for Children and Families
Federal Financial Assistance Listing #93.566, 2202SDRCMA, 10/01/2021 – 9/30/2023
Refugee and Entrant Assistance – State Administered Programs**

**Allowable Costs / Costs Principles and Activities Allowed or Unallowed
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. 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.

Condition: One instance identified in which a family was overpaid for a monthly cash assistance payment.

Cause: During the check writing process, the amount was mis-keyed for \$688 instead of \$668 based upon supporting documentation.

Effect: The family was overpaid and the Organization over-charged the federal award.

Questioned Costs: \$20

Context/Sampling: A nonstatistical sample of 24 non-payroll disbursements out of a total of approximately 471 non-payroll disbursements were tested which accounted for \$104,148 out of \$598,085 of non-payroll disbursements.

Repeat Finding from Prior Year: Yes, prior year finding 2022-002.

Recommendation: We recommend management review the process over cash assistance payments to ensure accurate amounts are paid to families.

View of Responsible Officials: Management is in agreement.

Finding 2023-003

Administration for Children and Families

Federal Financial Assistance Listing #93.566, 2001SDRSOC, 10/01/2019 – 9/30/2022
Federal Financial Assistance Listing #93.566, 2201SDRSSS, 10/01/2021 – 9/30/2023
Federal Financial Assistance Listing #93.566, 2202SDRCMA, 10/01/2021 – 9/30/2023
Federal Financial Assistance Listing #93.566, 2301SDRSSS, 10/01/2022 – 9/30/2024
Refugee and Entrant Assistance – State Administered Programs

Reporting

Material Weakness in Internal Control over Compliance and Material Noncompliance

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: We noted the following matters during testing:

- a) The quarterly report ending December 2022 for fiscal year award 2020 improperly excluded expenditures incurred of \$85,000 relating to the Services to Older Refugees set-aside services program.
- b) The semi-annual ORR6, covering the period of 4/1/2022 – 9/30/2022, was not submitted timely.
- c) The FFATA report filed for Sioux Falls School District included the incorrect Subaward Obligation/Action Date.

Cause: The independent review process over the quarterly report did not identify the improperly excluded expenditures. The ORR6 report was not filed timely by management. Within the FFATA report, the Organization included the grant award end date due to misinterpretation of the required FFATA report information.

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 reporting.

Questioned Costs: None reported.

Context/Sampling: Included under eight award letters of the federal program, four quarterly federal financial reports (SF-425s) and one quarterly federal financial report (ORR2) were reviewed in the Organization’s fiscal year. In addition, one semi-annual programmatic report was reviewed in the Organization’s fiscal year. A total of 24 reports were filed during the Organization’s fiscal year. The FFATA report for the only subrecipient who received funds through this program was tested. The quantity and subaward obligation errors were noted as follows:

	Subawards	Obligations
Total Tested	1	\$ 202,559
Not Reported	-	-
Not Timely	-	-
Obligation Incorrect	-	-
Missing Key Elements	1	202,559

Repeat Finding from Prior Years: Yes, prior year finding 2022-003

Recommendation: We recommend that management review internal control procedures over reporting to ensure reports are submitted timely and accurate information is reported.

Views of Responsible Officials: Management is in agreement.

Finding 2023-004

Administration for Children and Families

Federal Financial Assistance Listing #93.566, 2202SDRCMA, 10/01/2021 – 9/30/2023

Federal Financial Assistance Listing #93.566, 2302SDRCMA, 10/01/2022 – 9/30/2023

Refugee and Entrant Assistance – State Administered Programs

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: We noted the following matters during testing which affected 11 participant files;

- a) Four participant case files were not reviewed through the Organization's peer review process and two participant case files were not reviewed in a timely manner through the Organization's peer review process.
- b) Four instances in which the family's first month's prorated cash assistance payment was not properly calculated based upon the date the Cooperative Agreement and Rights and Responsibilities Form was signed by the client.
- c) One instance in which a family was underpaid based upon their family size and eligibility for the month.
- d) One instance in which a family was moved from the Refugee Cash Assistance program to another program and the expenses remained to be charged under the Refugee Cash Assistance program.

Cause: The Organization experienced staff turnover along with an increase in refugee arrivals during the fiscal year creating an increase in the workload of staff members. In addition, the Organization's policies and designed controls were not followed.

Effect: Ineffective controls over this area of compliance could result in a reasonable possibility that the Organization would provide services to ineligible participants and the Organization would not detect ineligibility in a timely manner.

Questioned Costs: \$1,005

Context/Sampling: A nonstatistical sample of 35 participant case files out of 153 participant case files were selected for testing which included \$83,824 of participant payments out of \$353,391.

Repeat Finding from Prior Year: Yes, prior year finding 2022-005

Recommendation: We recommend that management review the Organization's policies, procedures and controls over eligibility with applicable program employees to ensure compliance with the federal program.

View 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, 2023

Prepared by Management of
Lutheran Social Services of South Dakota

Summary Schedule of Prior Audit Findings

Financial Statement Findings

Finding 2022-001 Preparation of Consolidated Schedule of Expenditures of Federal Awards

Initial Fiscal Year Finding Occurred: 2022

Finding Summary: The Organization included a net amount of \$296,442 of expenditures on the schedule as the Organization was identified as a subrecipient under one agreement and a beneficiary under another agreement.

Status: Resolved – Contracts are reviewed when received to evaluate if inclusion or exclusion on the Schedule of Expenditures of Federal Awards is appropriate.

Findings – Federal Awards

Finding 2022-002 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Initial Fiscal Year Finding Occurred: 2020

Finding Summary: Two instances were identified in which the manual federal time tracker, which tracks federal and nonfederal hours for employees, used to allocate employee's time across federal awards, was not reviewed and approved prior to completion of monthly direct and indirect cost allocations based on staff time by federal award.

Status: The above finding did not reoccur as it relates to payroll transactions, however there was an allowable cost finding relating to non-payroll disbursements reported as finding 2023-002.

Finding 2022-003 Reporting

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Initial Fiscal Year Finding Occurred: 2020

Finding Summary:

- a. FFATA report was filed outside the 30-day reporting requirement. Further, FFATA was submitted under the incorrect FAIN and no subaward ID was identified within the FFATA report. Additionally, no support to substantiate independent review was completed prior to submission of FFATA report.
- b. No support could be provided to substantiate a secondary review of two Federal Financial Reports (ORR2s).
- c. Two amounts reported within a programmatic report (ORR6) did not agree to supporting documentation.

Status: The above findings did not reoccur, however there were other reporting matters identified during the current year. Procedures will be reviewed to determine if additional processes and procedures are necessary. Similar finding reported as 2023-003.

Finding 2022-004 Subrecipient Monitoring

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: There was no documentation retained to support a secondary independent review was completed over the evaluation of subrecipient's risk of noncompliance.

Status: Resolved.

Finding 2022-005 Eligibility

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Initial Fiscal Year Finding Occurred: 2022

Finding Summary: One instance was identified where two check copies were not retained within the case file to support the checks were received by the refugee family.

Status: While the above finding did not reoccur, other matters relating to eligibility were identified. See finding reported as 2023-004.

Corrective Action Plan

Findings – Financial Statement

Finding 2023-001 Preparation of Financial Statements and Audit Adjustments

Finding Summary: Lutheran Social Services requested Eide Bailly, LLP to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. In addition Eide Bailly, LLP assisted with the implementation of Accounting Standards Update No. 2016-02, *Leases* (ASC 842) including disclosures relating to the new standard. Eide Bailly, LLP also proposed an audit adjustment relating to refundable advances and donor restricted contributions, and also assisted with reclassifying the recorded loss relating to the HUD corporation transfer transaction, nonroutine in nature.

Responsible Individuals: Nathan Beyer & Emily Lyons

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. Implementation of the Lease standard, and the HUD transfer are nonroutine in nature, and will not be recurring.

Anticipated Completion Date: November 1, 2023

Findings – Federal Awards

Finding 2023-002 Allowable Costs / Costs Principles and Activities Allowed or Unallowed

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Finding Summary: One instance identified in which a family was overpaid for a monthly cash assistance payment.

Responsible Individuals: Nathan Beyer & Emily Lyons

Corrective Action Plan: One check was mis-keyed when entered for payment, and the client was overpaid by \$20. Procedures will be reviewed to determine if there are additional steps that can be taken to catch entry errors.

Anticipated Completion Date: December 31, 2023

Finding 2023-003 Reporting

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Finding Summary:

- a. The quarterly report ending December 2022 for the fiscal year award 2020 improperly excluded expenditures incurred of \$85,000 relating to the Services to Older Refugees set-aside services program.
- b. The semi-annual ORR6, covering the period of 4/1/2022 – 9/30/2022, was not submitted timely.
- c. The FFATA report filed for Sioux Falls School District included the incorrect Subaward Obligation/Action Date.

Responsible Individuals: Nathan Beyer, Emily Lyons, Tim Jurgens

Corrective Action Plan:

- a. Due to transitions in staffing, there was an error in the reporting of one quarterly report. It was not caught in the review process, but was corrected on the subsequent quarterly report. The process for completion and review of the quarterly reports will be reviewed to determine if any changes are necessary.
- b. The process and timing of reporting submissions will be reviewed with staff to ensure reports are submitted in a timely manner.
- c. FFATA reporting requirements will be reviewed to ensure management has the correct understanding of reporting terms.

Anticipated Completion Date: December 31, 2023

Finding 2023-004 Eligibility

Administration for Children and Families

FFAL 93.566

Refugee and Entrant Assistance – State Administered Programs

Finding Summary:

- a. Four participant case files were not reviewed through the Organization's peer review process and two participant case files were not reviewed in a timely manner through the Organization's peer review process.
- b. Four instances in which the family's first month's prorated cash assistance payment was not properly calculated based upon the date the Cooperative Agreement and Rights and Responsibilities Form was signed by the client.
- c. One instance in which a family was underpaid based upon their family size and eligibility for the month.
- d. One instance in which a family was moved from the Refugee Cash Assistance program to another program and the expenses remained to be charged under the Refugee Cash Assistance program.

Responsible Individuals: Nathan Beyer, Sheri Ekdorf, Tim Jurgens

Corrective Action Plan:

- a. The procedures for case file review will be reviewed to ensure the process can be followed, even when there is turnover in staff.
- b. The procedures will be reviewed with staff, and an additional review put in place where necessary, to ensure staff are fully trained on how to calculate the arrival date for proration of the first month of payments.
- c. The procedures will be reviewed with staff, and an additional review put in place where necessary, to ensure staff are fully trained on how to calculate family size and eligibility.
- d. The procedures will be reviewed with staff for removing a client from the program, and notifying staff to void checks. The checks in question were voided and credited back to the grant for \$481.48 and \$878.00 in September 2023 which is within the grant's budget period.

LSS is also implementing a new software program to help the review process be more efficient, and less reliant on manual processes. Checks and balances will be integrated into the software, allowing for electronic review of files. The software will also help automate some of the ongoing documentation requirements.

Anticipated Completion Date: December 31, 2023