

Consolidated Financial Statements
June 30, 2025 and 2024

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

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

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June 30, 2025 and 2024

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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 (the Organization), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, 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, 2025 and 2024, 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 Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

Supplementary Information

Our audits were 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 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. 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* is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 GAAS. 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 December 19, 2025 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
December 19, 2025

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

Consolidated Statements of Financial Position

June 30, 2025 and 2024

	2025	2024
Assets		
Cash and cash equivalents	\$ 3,497,550	\$ 3,712,462
Accounts receivable - fee for service, net	1,418,222	1,551,360
Accounts receivable - grants and contracts, net	1,173,175	1,698,887
Promises to give, net	309,494	369,489
Prepaid expenses	289,391	46,657
Investments	8,440,938	7,863,660
Beneficial interests in assets held by community foundations	58,967	55,506
Cash limited as to use	560,166	568,305
Operating lease right of use assets	302,141	835,174
Property and equipment, net	11,807,558	13,530,477
Assets held for sale	800,000	-
	<u>\$ 28,657,602</u>	<u>\$ 30,231,977</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 300,374	\$ 426,503
Accrued liabilities	1,167,614	1,204,796
Refundable advances	363,962	474,624
Interest rate swap agreement	3,447	4,063
Operating lease liabilities	285,439	835,931
Notes payable	2,688,612	3,156,990
Total liabilities	<u>4,809,448</u>	<u>6,102,907</u>
Net Assets		
Without donor restrictions	17,753,513	18,154,760
With donor restrictions	6,094,641	5,974,310
Total net assets	<u>23,848,154</u>	<u>24,129,070</u>
	<u>\$ 28,657,602</u>	<u>\$ 30,231,977</u>

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

Consolidated Statements of Activities

Years Ended June 30, 2025 and 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
Public support						
Contributions	\$ 255,590	\$ 766,678	\$ 1,022,268	\$ 571,288	\$ 3,045,457	\$ 3,616,745
Church support	131,581	55,584	187,165	139,923	129,524	269,447
United Way	401,710	967,860	1,369,570	484,540	968,210	1,452,750
Fees and grants from government agencies	20,089,745	35,700	20,125,445	20,747,466	35,700	20,783,166
Other grants	321,411	483,450	804,861	450,824	322,508	773,332
Total public support	21,200,037	2,309,272	23,509,309	22,394,041	4,501,399	26,895,440
Revenue						
Client and program income	3,078,936	-	3,078,936	4,331,644	-	4,331,644
Net investment return	689,565	213,514	903,079	562,085	64,305	626,390
Rent income	226,387	-	226,387	224,942	-	224,942
Donated supplies	85,348	-	85,348	67,870	-	67,870
Unrealized gain on interest rate swap agreement	616	-	616	4,105	-	4,105
Change in value of beneficial interests in assets held by community foundations	-	3,461	3,461	-	2,962	2,962
Gain (loss) on disposal of property and equipment	14,500	-	14,500	(1,735)	-	(1,735)
Miscellaneous income	100,745	2,125	102,870	285,884	1,767	287,651
Total revenue	4,196,097	219,100	4,415,197	5,474,795	69,034	5,543,829
Net assets released from restrictions	2,408,041	(2,408,041)	-	2,341,727	(2,341,727)	-
Total public support, revenue, and other support	27,804,175	120,331	27,924,506	30,210,563	2,228,706	32,439,269

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

Consolidated Statements of Activities

Years Ended June 30, 2025 and 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Expenses and Losses						
Program services						
Residential services	\$ 8,409,591	\$ -	\$ 8,409,591	\$ 8,900,700	\$ -	\$ 8,900,700
Permanency services	2,522,478	-	2,522,478	2,221,056	-	2,221,056
Behavioral health	2,170,986	-	2,170,986	2,380,341	-	2,380,341
Center for New Americans	4,515,028	-	4,515,028	4,312,220	-	4,312,220
Center for Financial Resources	1,291,651	-	1,291,651	1,388,322	-	1,388,322
Childcare services	1,076,456	-	1,076,456	1,883,261	-	1,883,261
Other services	4,058,928	-	4,058,928	4,263,771	-	4,263,771
Lutheran Housing Corporation	203,550	-	203,550	179,720	-	179,720
Supporting services						
Management and general	2,706,874	-	2,706,874	2,886,456	-	2,886,456
Development and foundation	882,544	-	882,544	804,583	-	804,583
Total expenses	27,838,086	-	27,838,086	29,220,430	-	29,220,430
Loss on impairment of assets held for sale	367,336	-	367,336	-	-	-
Total expenses and losses	28,205,422	-	28,205,422	29,220,430	-	29,220,430
Change in Net Assets	(401,247)	120,331	(280,916)	990,133	2,228,706	3,218,839
Net Assets, Beginning of Year	18,154,760	5,974,310	24,129,070	17,164,627	3,745,604	20,910,231
Net Assets, End of Year	\$ 17,753,513	\$ 6,094,641	\$ 23,848,154	\$ 18,154,760	\$ 5,974,310	\$ 24,129,070

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2025

	Program Services								Supporting Services			Total Expenses
	Residential Services	Permanency Services	Behavioral Health	Center for New Americans	Center for Financial Resources	Childcare Services	Other Services	Lutheran Housing Corporation	Total Program Services	Management and General	Philanthropy	
Salaries	\$ 5,293,763	\$ 1,563,489	\$ 1,401,883	\$ 1,871,477	\$ 377,631	\$ 605,558	\$ 2,396,548	\$ 48,281	\$ 13,558,630	\$ 1,388,313	\$ 346,091	\$ 15,293,034
Employee health and retirement benefits	667,630	268,810	203,707	248,365	78,066	43,558	287,666	1,379	1,799,181	212,723	60,047	2,071,951
Payroll taxes	443,332	121,402	108,062	149,907	28,866	51,443	191,151	1,996	1,096,159	91,552	25,001	1,212,712
Travel	106,476	86,445	24,807	34,910	8,007	11,981	128,870	-	401,496	51,241	5,792	458,529
Conference and training	63,216	38,947	10,198	18,978	8,865	3,166	62,295	-	205,665	74,974	4,773	285,412
Professional fees	141,318	17,083	26,504	251,274	33,042	4,179	259,707	25,880	758,987	382,625	14,056	1,155,668
Client related expenses	573,093	201,314	10,558	1,440,000	678,674	47,940	194,026	-	3,145,605	11	52	3,145,668
Supplies	54,501	17,458	15,015	132,231	11,553	12,541	32,416	15,590	291,305	279,208	6,485	576,998
Communications	33,592	38,585	30,456	22,107	21,419	6,487	42,560	-	195,206	17,678	9,296	222,180
Occupancy expenses	546,592	108,169	115,152	153,689	22,178	229,942	192,053	97,802	1,465,577	49,775	12,287	1,527,639
Outside printing	895	6,201	2,063	-	4,432	168	88,328	1,671	103,758	-	339,500	443,258
Dues and subscriptions	2,438	940	2,158	15,472	-	26	1,999	-	23,033	19,186	12,397	54,616
Building & equipment maintenance	5,613	41	-	-	-	-	-	-	5,654	3	-	5,657
Credit losses	-	-	139,386	-	-	1,381	5,884	-	146,651	(92,102)	5,262	59,811
Donated supplies	200	231	101	32,627	227	-	22,640	-	56,026	-	29,322	85,348
Miscellaneous	78,613	13,558	53,351	17,497	9,779	8,316	66,089	(180)	247,023	88,784	6,946	342,753
	8,011,272	2,482,673	2,143,401	4,388,534	1,282,739	1,026,686	3,972,232	192,419	23,499,956	2,563,971	877,307	26,941,234
Depreciation	398,319	39,805	27,585	126,494	8,912	49,770	86,696	11,131	748,712	142,903	5,237	896,852
	\$ 8,409,591	\$ 2,522,478	\$ 2,170,986	\$ 4,515,028	\$ 1,291,651	\$ 1,076,456	\$ 4,058,928	\$ 203,550	\$ 24,248,668	\$ 2,706,874	\$ 882,544	\$ 27,838,086

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	Program Services								Supporting Services			
	Residential Services	Permanency Services	Behavioral Health	Center for New Americans	Center for Financial Resources	Childcare Services	Other Services	Lutheran Housing Corporation	Total Program Services	Management and General	Philanthropy	Total Expenses
Salaries	\$ 5,422,076	\$ 1,312,306	\$ 1,408,351	\$ 1,680,188	\$ 384,823	\$ 1,198,652	\$ 2,557,242	\$ 38,675	\$ 14,002,313	\$ 1,503,075	\$ 336,519	\$ 15,841,907
Employee health and retirement benefits	645,549	228,415	196,454	193,958	79,801	97,572	316,583	2,437	1,760,769	265,615	48,073	2,074,457
Payroll taxes	471,118	102,973	117,078	135,311	30,478	98,317	207,295	3,295	1,165,865	74,947	24,188	1,265,000
Travel	119,985	78,681	43,003	63,082	9,512	13,542	137,815	-	465,620	55,723	2,271	523,614
Conference and training	77,190	18,114	9,986	54,567	7,768	5,524	94,818	-	267,967	88,378	3,405	359,750
Professional fees	188,879	11,033	53,032	401,879	32,807	3,780	264,317	20,688	976,415	285,456	17,767	1,279,638
Client related expenses	638,832	235,330	29,082	1,367,082	770,317	124,263	177,849	-	3,342,755	82	79	3,342,916
Supplies	100,227	23,584	35,599	62,566	14,016	26,453	38,809	15,820	317,074	273,837	6,537	597,448
Communications	39,283	34,561	49,149	35,713	10,943	12,525	41,224	-	223,398	19,793	11,936	255,127
Occupancy expenses	729,888	101,783	127,416	161,980	23,359	238,753	192,157	78,371	1,653,707	54,549	15,935	1,724,191
Outside printing	8	10,157	38,076	102	5,245	225	41,464	540	95,817	652	218,473	314,942
Dues and subscriptions	1,362	1,394	2,368	10,962	8	708	3,703	-	20,505	16,308	13,490	50,303
Building & equipment maintenance	1,220	35	-	-	-	120	240	-	1,615	8,988	-	10,603
Credit losses	-	2,500	222,900	-	-	2,740	376	5,752	234,268	84,430	38,398	357,096
Donated supplies	5,622	1,129	-	1,335	-	2,025	6,293	-	16,404	-	51,466	67,870
Miscellaneous	93,217	27,555	15,684	15,850	10,299	7,342	99,416	272	269,635	41,789	12,093	323,517
	8,534,456	2,189,550	2,348,178	4,184,575	1,379,376	1,832,541	4,179,601	165,850	24,814,127	2,773,622	800,630	28,388,379
Depreciation	366,244	31,506	32,163	127,645	8,946	50,720	84,170	13,870	715,264	112,834	3,953	832,051
	\$ 8,900,700	\$ 2,221,056	\$ 2,380,341	\$ 4,312,220	\$ 1,388,322	\$ 1,883,261	\$ 4,263,771	\$ 179,720	\$ 25,529,391	\$ 2,886,456	\$ 804,583	\$ 29,220,430

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

Consolidated Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	2025	2024
Operating Activities		
Change in net assets	\$ (280,916)	\$ 3,218,839
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	896,852	832,051
(Gain) loss on disposal of property and equipment	(14,500)	1,735
Loss on impairment of assets held for sale	367,336	-
Unrealized gain on interest rate swap agreement	(616)	(4,105)
Change in value of beneficial interests in assets held by community foundations	(3,461)	(2,962)
Realized and unrealized gains on investments	(600,190)	(469,144)
Change in discount on promises to give	(18,993)	21,469
Change in allowance for credit losses	(92,099)	83,903
Contributions restricted for endowment	-	(2,200,000)
Noncash contribution	-	(150,079)
Change in assets and liabilities		
Accounts receivable - fee for service, net	226,869	138,516
Accounts receivable - grants and contracts, net	524,080	(354,574)
Promises to give, net	78,988	(139,982)
Prepaid expenses	(242,734)	87,056
Operating lease assets and liabilities	(17,459)	(2,620)
Accounts payable	(126,129)	(79,158)
Accrued liabilities	(37,182)	(19,780)
Refundable advances	(110,662)	(301,631)
Net Cash from Operating Activities	549,184	659,534
Investing Activities		
Purchases of investments	(2,389,302)	(4,232,429)
Sales and maturities of investments	2,412,214	2,141,825
Proceeds from sale of property and equipment	14,500	3,311
Purchases of property and equipment	(341,269)	(463,871)
Net Cash used for Investing Activities	(303,857)	(2,551,164)
Financing Activities		
Principal payments on notes payable	(468,378)	(502,053)
Collections of contributions restricted for endowment	-	2,200,000
Net Cash (used for) from Financing Activities	(468,378)	1,697,947
Net Change in Cash, Cash Equivalents, and Restricted Cash	(223,051)	(193,683)
Beginning Cash, Cash Equivalents, and Restricted Cash	4,280,767	4,474,450
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 4,057,716	\$ 4,280,767

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidated Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents	\$ 3,497,550	\$ 3,712,462
Cash Limited as to Use	<u>560,166</u>	<u>568,305</u>
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 4,057,716</u>	<u>\$ 4,280,767</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 153,239	\$ 183,302
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Property and equipment reclassified as assets held for sale	\$ 1,167,336	\$ -

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. Alternatives to Detention 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. In October 2024, the Organization closed the New Beginnings Center in Aberdeen, a group care facility for youth.

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.

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.

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. In August 2024, the Organization ceased providing childcare services for infants, toddlers, and preschool-aged children. Services for school-aged children have continued.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 \$581,000 and \$593,000 of program expenses for the years ended June 30, 2025 and 2024, respectively.

Lutheran Housing Corporation

Lutheran Housing Corporation/Prairie Lake Apartments (the Housing Corporation) was formed for the purpose of developing an elderly/family congregate housing project. The Housing Corporation operates an apartment complex consisting of 21 affordable housing units.

Principles of Consolidation

The consolidated financial statements include the accounts of Lutheran Social Services of South Dakota Foundation, Inc. (Foundation) and Lutheran Housing Corporation/Prairie Lake Apartments, which are nonprofit South Dakota corporations under common control. 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.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable – fee for service are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivable – fee for service are stated at the amount billed. Account balances with invoices dated over 60 days old are considered delinquent. Payments of accounts receivable – fee for service are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Accounts receivable – fee for service at July 1, 2023 was \$1,768,145.

The Organization has tracked historical loss information for its accounts receivable – fee for service and compiled historical credit loss percentages for different aging categories (current, 1–30 days past due, 31–60 days past due, 61–90 days past due, and more than 90 days past due). Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses for accounts receivable – fee for service held at June 30, 2025 and 2024 because the composition of the accounts receivable – fee for service at those dates are consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its lending practices have not changed significantly over time).

Additionally, management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Changes in the allowance for credit losses for accounts receivable – fee for service are as follows for the years ended June 30:

	2025	2024
Allowance for credit losses, beginning of year	\$ (162,984)	\$ (84,715)
Provision for credit losses	(59,811)	(162,984)
Writeoffs charged against the allowance	153,542	84,715
Allowance for credit losses, end of year	<u>\$ (69,253)</u>	<u>\$ (162,984)</u>

Accounts receivable – grants and contracts consist primarily of noninterest-bearing amounts due from government agencies for federal and state grants and contracts. The Organization determines the allowance for uncollectible accounts receivable – grants and contracts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At June 30, 2025 and 2024, the allowance for credit losses totaled \$26,111 and \$24,479, 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, 2025 and 2024.

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

Agency Funds

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.

Designated Funds

Designated funds that name the Organization as a beneficiary that were established at the Sioux Falls Area Community Foundation (SFACF) and the South Dakota Community Foundation (SDCF) by various donors are not recorded as assets for the Organization. The Community Foundations have been granted variance power by the donors which allows the foundations to modify any condition or restriction on their distributions for any specified charitable purpose or to any specified organization. SFACF has funds totaling \$227,535 and \$213,266 at June 30, 2025 and 2024, respectively, for which the Organization is the beneficiary. SDCF has funds totaling \$328,898 and \$208,542 at June 30, 2025 and 2024, respectively, for which the Organization is the beneficiary. The Organization does not recognize its interest in these funds until distributions are received.

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.

Right of Use Leased Assets and Liabilities

Right to use leased assets and the related liabilities are recognized at the lease commencement date and represent the Organization's right to use an underlying asset and lease obligations for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset. The amortization period varies among the leases.

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.

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. The Organization has determined that certain long-lived assets were impaired during the year ended June 30, 2025, and has recorded an impairment loss of \$367,336 at June 30, 2025 (Note 9). There were no indicators of asset impairment during the year ended June 30, 2024.

Assets held for sale are separately presented on the consolidated statement of financial position and are no longer depreciated.

Interest Rate Swap Agreement

The Organization uses an interest rate swap to mitigate interest rate risk on a note payable (Note 12). 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.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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

Miscellaneous income is recognized when the revenue is earned or when the Organization becomes aware that the revenue has been earned. Miscellaneous income is derived from a variety of sources, including insurance proceeds, facility use fees, and other revenues.

The Housing Corporation operates housing units which are rented under operating lease agreements with terms of one year or less. Rent income from tenants and tenant assistance payments are recognized in the month in which they are earned rather than received.

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 \$363,962 and \$474,624 as of June 30, 2025 and 2024, respectively. The Organization has received cost reimbursable grants of approximately \$3,630,000 and \$4,300,000 that have not been recognized at June 30, 2025 and 2024, 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.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Donated materials and services for the years ended June 30, 2025 and 2024, were approximately \$85,000 and \$68,000, respectively.

Management estimates that volunteers donated approximately 53,800 and 52,000 hours of service in 2025 and 2024, 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 are included in outside printing expense on the consolidated statements of functional expenses which totaled approximately \$347,000 and \$267,000 for the years ended June 30, 2025 and 2024, respectively.

Fundraising

The Organization incurred expenses amounting to \$882,544 and \$804,583 for the years ended June 30, 2025 and 2024, respectively, related to development and fundraising. Such amounts are reflected as development and foundation expenses in the accompanying consolidated statements of activities.

Income Taxes

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

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

Estimates

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

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and money market accounts 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, 2025 and 2024, the Organization had approximately \$3,680,000 and \$3,673,000, respectively, in excess of FDIC-insured limits. At June 30, 2025 and 2024, the Housing Corporation had \$0 in excess of FDIC-insured limits.

The Organization provides credit in the normal course of business to its clients and others and performs ongoing credit evaluations of these parties. Credit risk associated with these receivables is considered moderate, which is an assessment based on historical collection rates and the consideration that outstanding balances are primarily from clients. Credit risk associated with promises to give and accounts receivable – grants and contracts 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.

Reclassifications

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

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Note 2 - Cash and Cash Equivalents

	2025	2024
Undesignated		
Cash on hand	\$ 2,199	\$ 2,199
Cash in checking	3,477,007	3,679,740
	<u>3,479,206</u>	<u>3,681,939</u>
Designated for apartment project operations	18,344	30,523
Total cash and cash equivalents	<u>\$ 3,497,550</u>	<u>\$ 3,712,462</u>

Note 3 - 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 11 for information on the line of credit.

	2025	2024
Financial assets at year end		
Cash and cash equivalents	\$ 3,497,550	\$ 3,712,462
Accounts receivable - fee for service, net	1,418,222	1,551,360
Accounts receivable - grants and contracts, net	1,173,175	1,698,887
Promises to give, net	309,494	369,489
Investments	8,440,938	7,863,660
Total financial assets	<u>14,839,379</u>	<u>15,195,858</u>
Less amounts not available to be used within one year		
Promises to give due after one year	(177,110)	(257,397)
Investments in non-liquid securities	(9,470)	(9,309)
Total financial assets not available to be used within one year	<u>(186,580)</u>	<u>(266,706)</u>
Donor imposed restrictions		
Restricted funds - donor endowment	(2,312,819)	(2,209,305)
Distribution of donor endowment within one year	111,906	110,000
Restricted funds - capital projects	-	(50,000)
	<u>(2,200,913)</u>	<u>(2,149,305)</u>
Internal designations		
Board designated for endowment purposes - liquid securities	(6,063,140)	(5,684,832)
Distribution of board designated endowment within one year	261,351	256,119
Designated for apartment project operations	(18,344)	(30,523)
Total internal designations	<u>(5,820,133)</u>	<u>(5,459,236)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,631,753</u>	<u>\$ 7,320,611</u>

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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.

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2025 and 2024:

	2025	2024
Within one year	\$ 132,384	\$ 112,092
In one to five years	206,309	305,589
Total promises to give	338,693	417,681
Less discount to net present value at rates ranging from 4.50% to 9.75%	(29,199)	(48,192)
Promises to give, net	<u>\$ 309,494</u>	<u>\$ 369,489</u>

At June 30, 2025 and 2024, there were unconditional promises to give from employees and board members totaling \$44,458 and \$47,519, respectively. Total contribution revenues from employees and board members were \$34,432 and \$55,362 for the years ended June 30, 2025 and 2024, 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 \$217,269 and \$195,236 at June 30, 2025 and 2024, respectively. The contributions are recognized as revenue at the time the beneficiary designation becomes irrevocable.

Note 5 - Fair Value of Investments

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.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of an input to the entire measurement requires judgment, considering factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset.

A significant portion of the Organization's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. The fair value of the beneficial interests in assets held by the community foundations is based on the fair value of fund investments as reported by the community foundations. This is considered to be a Level 3 measurement. For the years ending June 30, 2025 and 2024, the fair value of the interest rate swap is based upon the daily floating Prime Rate plus a margin of 185 basis points multiplied by a factor of 65% during the term of the swap agreement.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2025:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>Assets</u>				
Investments				
Cash and cash equivalents, at cost	\$ 390,715	\$ -	\$ -	\$ -
Life insurance policies, at cost	9,470	-	-	-
Mutual funds				
Equity securities	5,191,141	5,191,141	-	-
Fixed income	2,594,342	2,594,342	-	-
Real assets	255,270	255,270	-	-
Total investments	<u>\$ 8,440,938</u>	<u>\$ 8,040,753</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by community foundations	<u>\$ 58,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,967</u>
<u>Liabilities</u>				
Interest rate swap agreement	<u>\$ 3,447</u>	<u>\$ -</u>	<u>\$ 3,447</u>	<u>\$ -</u>

The following table presents assets and liabilities measured at fair value on a recurring basis at June 30, 2024:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>Assets</u>				
Investments				
Cash and cash equivalents, at cost	\$ 311,874	\$ -	\$ -	\$ -
Certificates of deposit, cost plus accrued interest	125,079	-	-	-
Life insurance policies, at cost	9,309	-	-	-
Mutual funds				
Equity securities	4,762,196	4,762,196	-	-
Fixed income	2,425,854	2,425,854	-	-
Real assets	229,348	229,348	-	-
Total investments	<u>\$ 7,863,660</u>	<u>\$ 7,417,398</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in assets held by community foundations	<u>\$ 55,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,506</u>
<u>Liabilities</u>				
Interest rate swap agreement	<u>\$ 4,063</u>	<u>\$ -</u>	<u>\$ 4,063</u>	<u>\$ -</u>

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The following is a reconciliation for Level 3 assets and liabilities measured on a recurring basis for the years ended June 30, 2025 and 2024:

	Beneficial Interest in Assets Held by Community Foundations
Balance, July 1, 2023	\$ 52,544
Total gains or losses Included in change in net assets, net of fees	<u>2,962</u>
Balance, June 30, 2024	55,506
Total gains or losses Included in change in net assets, net of fees	<u>3,461</u>
Balance, June 30, 2025	<u><u>\$ 58,967</u></u>

For the years ended June 30, 2025 and 2024, there were no transfers into or out of Level 3.

Note 6 - Investment Return

The investment return, net of investment fees, consists of the following for the years ended June 30, 2025 and 2024:

	2025	2024
Interest earned, dividends received, and mutual fund capital gains reinvested	\$ 339,411	\$ 186,360
Realized and unrealized gains (losses) on securities	600,190	469,144
Investment fees	<u>(36,522)</u>	<u>(29,114)</u>
Total investment return	<u><u>\$ 903,079</u></u>	<u><u>\$ 626,390</u></u>

Note 7 - Cash Limited as to Use

Pursuant to the regulatory agreement and mortgage agreement with the South Dakota Housing Development Authority (SDHDA) and the U.S. Department of Housing and Urban Development (HUD), the Corporation is 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, 2025 and 2024, was \$153,273 and \$167,101, respectively.

The regulatory agreement and mortgage agreement with SDHDA and HUD also provides for restrictive operating procedure and loan covenants.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024, was \$349,377 and \$343,688, 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, 2025 and 2024, was \$57,516.

Note 8 - Property and Equipment

	Useful Life	2025		2024	
		Cost	Accumulated Depreciation	Net	Net
Land		\$ 2,563,942	\$ -	\$ 2,563,942	\$ 2,563,942
Buildings and improvements	15 - 40 years	16,730,016	8,423,919	8,306,097	9,916,016
Furniture and equipment	7 - 14 years	1,900,579	1,598,151	302,428	531,965
Automobiles	3 - 5 years	902,941	646,038	256,903	249,717
Software	5 years	467,682	176,540	291,142	268,837
Work in process		87,046	-	87,046	-
Totals		<u>\$ 22,652,206</u>	<u>\$ 10,844,648</u>	<u>\$ 11,807,558</u>	<u>\$ 13,530,477</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 the Corporation with a federal HUD grant during a prior year was \$2,163,283 and is reflected as net assets with donor restrictions at June 30, 2025 and 2024.

Note 9 - Assets Held for Sale

As of June 30, 2025, the Organization classified certain assets as held for sale. These assets include a building, improvements, furniture, and equipment located at its New Beginnings Center in Aberdeen, South Dakota, which the Organization intends to sell within the next 12 months. Management has initiated a formal plan to sell and is actively marketing the assets for sale. In connection with this classification, the Organization ceased depreciating these assets on May 1, 2025.

The assets are measured at the lower of their carrying amount or fair value less costs to sell. The carrying amount of the assets held for sale is \$1,167,336, and the estimated fair value less costs to sell is \$800,000. Accordingly, an impairment loss of \$367,336 was recognized during the year ended June 30, 2025.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Note 10 - Leases

The Organization leases certain office facilities, vehicles, and equipment for various terms under long-term, non-cancellable operating lease agreements. The leases expire at various dates through October 2028 and provide for renewal options. 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.

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 by 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 years ended June 30, 2025 and 2024 were as follows:

	2025	2024
Operating lease cost	\$ 357,091	\$ 365,020
Short-term lease cost	45,977	37,105

The following table summarizes the supplemental cash flow information for the years ended June 30, 2025 and 2024:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 339,632	\$ 367,640
Right of use assets obtained in exchange for lease liabilities		
Operating leases	84,147	205,208

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

	2025	2024
Weighted-average remaining lease term (in years)	1.75	5.56
Weighted-average discount rate	3.50%	2.70%

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of June 30, 2025.

Years Ending June 30,	Amount
2026	\$ 182,903
2027	88,644
2028	22,238
2029	<u>1,193</u>
Total lease payments	294,978
Less interest	<u>(9,539)</u>
Present value of lease liabilities	<u><u>\$ 285,439</u></u>

Note 11 - 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, 2026 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 (8.75% and 9.75% as of June 30, 2025 and 2024, respectively). The line of credit was unused as of June 30, 2025 and 2024.

Note 12 - Notes Payable

	2025	2024
Variable rate (7.50% at June 30, 2025) 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	\$ 504,378	\$ 788,210
Adjustable rate (7.50% 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)	205,314	224,092
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)	721,890	748,924
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)	<u>1,257,030</u>	<u>1,395,764</u>
Total notes payable	<u><u>\$ 2,688,612</u></u>	<u><u>\$ 3,156,990</u></u>

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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 \$616 and \$4,105 relating to the agreement for the years ended June 30, 2025 and 2024, 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, 2025 and 2024 of \$3,447 and \$4,063, respectively.

Interest expense included in occupancy expense on the consolidated statements of functional expenses for the years ended June 30, 2025 and 2024 was \$153,239 and \$183,302, respectively.

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

2026	\$ 492,272
2027	409,079
2028	1,014,778
2029	57,602
2030	60,935
Thereafter	<u>653,946</u>
	<u>\$ 2,688,612</u>

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

Note 13 - Net Assets

Net assets as of June 30, 2025 and 2024, consist of the following:

	2025	2024
Without donor restrictions		
Designated by the board of the foundation for endowment purposes	\$ 6,001,172	\$ 5,622,703
Designated for apartment project operations (checking account)	18,344	30,523
Undesignated	11,733,997	12,501,534
Total without donor restrictions	17,753,513	18,154,760
With donor restrictions		
Subject to expenditure for specified purpose		
Community services	599,348	639,378
Children and youth programs	173,393	71,763
Other services	61,256	96,163
	833,997	807,304
Subject to the passage of time		
United Way contributions	493,740	467,507
Assets held by community foundations	58,967	55,506
Promises to give	136,835	176,405
Capital assets	2,163,283	2,163,283
	2,852,825	2,862,701
Capital assets restricted for use	95,000	95,000
Endowments		
Center for New Americans		
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation	2,200,000	2,200,000
Expendable earnings, subject to appropriation	112,819	9,305
	2,312,819	2,209,305
Total with donor restrictions	6,094,641	5,974,310
Total net assets	\$ 23,848,154	\$ 24,129,070

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024:

	2025	2024
Expiration of Time Restrictions		
United Way contributions	\$ 941,627	\$ 955,601
Assets held by community foundations	2,638	1,767
Promises to give	135,157	204,452
Satisfaction of Purpose Restriction		
Community services	949,407	750,363
Children and youth programs	242,548	289,247
Other services	136,664	140,297
	<u>\$ 2,408,041</u>	<u>\$ 2,341,727</u>

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, and funds received by the Organization from a donor for specific activities. 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. At June 30, 2025 and 2024, there were no such donor stipulations. 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:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

As of June 30, 2025 and 2024, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>June 30, 2025</u>			
Board-Designated Endowment Funds	\$ 6,001,172	\$ -	\$ 6,001,172
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,200,000	2,200,000
Accumulated investment gains	-	112,819	112,819
	<u>\$ 6,001,172</u>	<u>\$ 2,312,819</u>	<u>\$ 8,313,991</u>
<u>June 30, 2024</u>			
Board-Designated Endowment Funds	\$ 5,622,703	\$ -	\$ 5,622,703
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,200,000	2,200,000
Accumulated investment gains	-	9,305	9,305
	<u>\$ 5,622,703</u>	<u>\$ 2,209,305</u>	<u>\$ 7,832,008</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Organization had no deficiencies of this nature as of June 30, 2025 and 2024.

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.

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

Notes to Consolidated Financial Statements

June 30, 2025 and 2024

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.

Changes in endowment net assets for the year ended June 30, 2025 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 5,622,703	\$ 2,209,305	\$ 7,832,008
Contributions	40,644	-	40,644
Investment return, net			
Investment income	163,871	68,558	232,429
Net realized and unrealized appreciation	446,425	153,765	600,190
Fees	(27,713)	(8,809)	(36,522)
Appropriation of endowment assets for expenditure	(244,758)	(110,000)	(354,758)
Endowment net assets, end of year	<u>\$ 6,001,172</u>	<u>\$ 2,312,819</u>	<u>\$ 8,313,991</u>

Changes in endowment net assets for the year ended June 30, 2024 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 5,085,414	\$ -	\$ 5,085,414
Contributions	187,100	2,200,000	2,387,100
Investment return, net			
Investment income	146,751	37,769	184,520
Net realized and unrealized depreciation	440,008	29,136	469,144
Fees	(26,514)	(2,600)	(29,114)
Appropriation of endowment assets for expenditure	(210,056)	(55,000)	(265,056)
Endowment net assets, end of year	<u>\$ 5,622,703</u>	<u>\$ 2,209,305</u>	<u>\$ 7,832,008</u>

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.

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. Pension expense was \$166,020 and \$189,468 for the years ended June 30, 2025 and 2024, 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.

Note 17 - Contingency

In accordance with Paycheck Protection Program (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.

Note 18 - Subsequent Events

Subsequent to the year ended June 30, 2025, the Organization discontinued traditional outpatient behavioral health counseling, substance use disorder counseling, and criminal justice initiative programming within the Behavioral Health program in October 2025.

The Organization has evaluated subsequent events through December 19, 2025, the date which the consolidated financial statements were available to be issued.

Supplementary Information
June 30, 2025 and 2024

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, 2025

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporation	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 3,530,850	\$ (51,644)	\$ 18,344	\$ -	\$ 3,497,550
Accounts receivable - fee for service, net	1,414,283	-	3,939	-	1,418,222
Accounts receivable - grants and contracts, net	1,173,175	-	-	-	1,173,175
Promises to give, net	309,494	-	-	-	309,494
Prepaid expenses	289,391	-	-	-	289,391
Investments	3,865	8,437,073	-	-	8,440,938
Beneficial interests in assets held by community foundations	58,967	-	-	-	58,967
Cash limited as to use	406,893	-	153,273	-	560,166
Operating lease right of use assets	302,141	-	-	-	302,141
Property and equipment, net	11,654,486	-	153,072	-	11,807,558
Assets held for sale	800,000	-	-	-	800,000
	<u>\$ 19,943,545</u>	<u>\$ 8,385,429</u>	<u>\$ 328,628</u>	<u>\$ -</u>	<u>\$ 28,657,602</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 293,873	\$ -	\$ 6,501	\$ -	\$ 300,374
Accrued liabilities	1,160,870	-	6,744	-	1,167,614
Refundable advances	363,962	-	-	-	363,962
Interest rate swap agreement	3,447	-	-	-	3,447
Operating lease liabilities	285,439	-	-	-	285,439
Notes payable	2,688,612	-	-	-	2,688,612
Total liabilities	<u>4,796,203</u>	<u>-</u>	<u>13,245</u>	<u>-</u>	<u>4,809,448</u>
Net Assets					
Without donor restrictions	13,695,241	6,001,172	(1,942,900)	-	17,753,513
With donor restrictions	1,452,101	2,384,257	2,258,283	-	6,094,641
Total net assets	<u>15,147,342</u>	<u>8,385,429</u>	<u>315,383</u>	<u>-</u>	<u>23,848,154</u>
	<u>\$ 19,943,545</u>	<u>\$ 8,385,429</u>	<u>\$ 328,628</u>	<u>\$ -</u>	<u>\$ 28,657,602</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Financial Position
Year Ended June 30, 2024

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporation	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 3,513,225	\$ 168,714	\$ 30,523	\$ -	\$ 3,712,462
Accounts receivable - fee for service, net	1,550,647	-	713	-	1,551,360
Accounts receivable - grants and contracts, net	1,698,887	-	-	-	1,698,887
Promises to give, net	369,489	-	-	-	369,489
Prepaid expenses	46,657	-	-	-	46,657
Investments	128,928	7,734,732	-	-	7,863,660
Beneficial interests in assets held by community foundations	55,506	-	-	-	55,506
Cash limited as to use	401,204	-	167,101	-	568,305
Operating lease right of use assets	835,174	-	-	-	835,174
Property and equipment, net	13,403,079	-	127,398	-	13,530,477
	<u>\$ 22,002,796</u>	<u>\$ 7,903,446</u>	<u>\$ 325,735</u>	<u>\$ -</u>	<u>\$ 30,231,977</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 424,132	\$ -	\$ 2,371	\$ -	\$ 426,503
Accrued liabilities	1,197,409	-	7,387	-	1,204,796
Refundable advances	474,624	-	-	-	474,624
Interest rate swap agreement	4,063	-	-	-	4,063
Operating lease liabilities	835,931	-	-	-	835,931
Notes payable	3,156,990	-	-	-	3,156,990
Total liabilities	<u>6,093,149</u>	<u>-</u>	<u>9,758</u>	<u>-</u>	<u>6,102,907</u>
Net Assets					
Without donor restrictions	14,474,363	5,622,703	(1,942,306)	-	18,154,760
With donor restrictions	<u>1,435,284</u>	<u>2,280,743</u>	<u>2,258,283</u>	<u>-</u>	<u>5,974,310</u>
Total net assets	<u>15,909,647</u>	<u>7,903,446</u>	<u>315,977</u>	<u>-</u>	<u>24,129,070</u>
	<u>\$ 22,002,796</u>	<u>\$ 7,903,446</u>	<u>\$ 325,735</u>	<u>\$ -</u>	<u>\$ 30,231,977</u>

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2025

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporation			
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Public Support, Revenue, and Other Support								
Public support								
Contributions	\$ 214,946	\$ 766,678	\$ 40,644	\$ -	\$ -	\$ -	\$ -	\$ 1,022,268
Church support	131,581	55,584	-	-	-	-	-	187,165
United Way	401,710	967,860	-	-	-	-	-	1,369,570
Fees and grants from government agencies	20,089,745	35,700	-	-	-	-	-	20,125,445
Other grants	321,411	483,450	-	-	-	-	-	804,861
Total public support	21,159,393	2,309,272	40,644	-	-	-	-	23,509,309
Revenue								
Client and program income	3,078,936	-	-	-	-	-	-	3,078,936
Net investment return	106,982	-	582,583	213,514	-	-	-	903,079
Rent income	23,431	-	-	-	202,956	-	-	226,387
Donated supplies	85,348	-	-	-	-	-	-	85,348
Unrealized gain on interest rate swap agreement	616	-	-	-	-	-	-	616
Change in value of beneficial interests in assets held by community foundations	-	3,461	-	-	-	-	-	3,461
Gain on disposal of property and equipment	14,500	-	-	-	-	-	-	14,500
Miscellaneous income	100,745	2,125	-	-	-	-	-	102,870
Total revenue	3,410,558	5,586	582,583	213,514	202,956	-	-	4,415,197
Net assets released from restrictions	2,408,041	(2,408,041)	-	-	-	-	-	-
Total public support, revenue, and other support	26,977,992	(93,183)	623,227	213,514	202,956	-	-	27,924,506

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2025

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporation			
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Expenses and Losses								
Program services								
Residential services	\$ 8,409,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,409,591
Permanency services	2,522,478	-	-	-	-	-	-	2,522,478
Behavioral health	2,170,986	-	-	-	-	-	-	2,170,986
Center for New Americans	4,515,028	-	-	-	-	-	-	4,515,028
Center for Financial Resources	1,291,651	-	-	-	-	-	-	1,291,651
Childcare services	1,076,456	-	-	-	-	-	-	1,076,456
Other services	4,058,928	-	-	-	-	-	-	4,058,928
Lutheran Housing Corporation	-	-	-	-	203,550	-	-	203,550
Supporting services								
Management and general	2,706,874	-	-	-	-	-	-	2,706,874
Development and foundation	882,544	-	-	-	-	-	-	882,544
Total expenses	27,634,536	-	-	-	203,550	-	-	27,838,086
Loss on impairment of assets held for sale	367,336	-	-	-	-	-	-	367,336
Total expenses and losses	28,001,872	-	-	-	203,550	-	-	28,205,422
Excess (Deficit) of Public Support, Revenue, and Other Support over Expenses	(1,023,880)	(93,183)	623,227	213,514	(594)	-	-	(280,916)
Inter-organization Transfers	244,758	110,000	(244,758)	(110,000)	-	-	-	-
Change in Net Assets	(779,122)	16,817	378,469	103,514	(594)	-	-	(280,916)
Net Assets, Beginning of Year	14,474,363	1,435,284	5,622,703	2,280,743	(1,942,306)	2,258,283	-	24,129,070
Net Assets, End of Year	\$ 13,695,241	\$ 1,452,101	\$ 6,001,172	\$ 2,384,257	\$ (1,942,900)	\$ 2,258,283	\$ -	\$ 23,848,154

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2024

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporation			
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Public Support, Revenue, and Other Support								
Public support								
Contributions	\$ 384,188	\$ 845,457	\$ 187,100	\$ 2,200,000	\$ -	\$ -	\$ -	\$ 3,616,745
Church support	139,923	129,524	-	-	-	-	-	269,447
United Way	484,540	968,210	-	-	-	-	-	1,452,750
Fees and grants from government agencies	20,747,466	35,700	-	-	-	-	-	20,783,166
Other grants	450,824	322,508	-	-	-	-	-	773,332
Total public support	22,206,941	2,301,399	187,100	2,200,000	-	-	-	26,895,440
Revenue								
Client and program income	4,331,644	-	-	-	-	-	-	4,331,644
Net investment return	1,840	-	560,245	64,305	-	-	-	626,390
Rent income	29,658	-	-	-	195,284	-	-	224,942
Donated supplies	67,870	-	-	-	-	-	-	67,870
Unrealized gain on interest rate swap agreement	4,105	-	-	-	-	-	-	4,105
Change in value of beneficial interests in assets held by community foundations	-	2,962	-	-	-	-	-	2,962
Loss on disposal of property and equipment	(1,735)	-	-	-	-	-	-	(1,735)
Miscellaneous income	285,884	1,767	-	-	-	-	-	287,651
Total revenue	4,719,266	4,729	560,245	64,305	195,284	-	-	5,543,829
Net assets released from restrictions	2,341,727	(2,341,727)	-	-	-	-	-	-
Total public support, revenue, and other support	29,267,934	(35,599)	747,345	2,264,305	195,284	-	-	32,439,269

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Activities
Year Ended June 30, 2024

	Lutheran Social Services of South Dakota, Inc.		Lutheran Social Services of South Dakota Foundation, Inc.		Lutheran Housing Corporation			
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Expenses								
Program services								
Residential services	\$ 8,900,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,900,700
Permanency services	2,221,056	-	-	-	-	-	-	2,221,056
Behavioral health	2,380,341	-	-	-	-	-	-	2,380,341
Center for New Americans	4,312,220	-	-	-	-	-	-	4,312,220
Center for Financial Resources	1,388,322	-	-	-	-	-	-	1,388,322
Childcare services	1,883,261	-	-	-	-	-	-	1,883,261
Other services	4,263,771	-	-	-	-	-	-	4,263,771
Lutheran Housing Corporation	-	-	-	-	179,720	-	-	179,720
Supporting services								
Management and general	2,886,456	-	-	-	-	-	-	2,886,456
Development and foundation	804,583	-	-	-	-	-	-	804,583
Total expenses	29,040,710	-	-	-	179,720	-	-	29,220,430
Excess (Deficit) of Public Support, Revenue, and Other Support over Expenses	227,224	(35,599)	747,345	2,264,305	15,564	-	-	3,218,839
Inter-organization Transfers	210,056	55,000	(210,056)	(55,000)	-	-	-	-
Change in Net Assets	437,280	19,401	537,289	2,209,305	15,564	-	-	3,218,839
Net Assets, Beginning of Year	14,037,083	1,415,883	5,085,414	71,438	(1,957,870)	2,258,283	-	20,910,231
Net Assets, End of Year	\$ 14,474,363	\$ 1,435,284	\$ 5,622,703	\$ 2,280,743	\$ (1,942,306)	\$ 2,258,283	\$ -	\$ 24,129,070

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2025

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporation	Eliminations	Total
Operating Activities					
Change in net assets	\$ (762,305)	\$ 481,983	\$ (594)	\$ -	\$ (280,916)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities					
Depreciation	885,721	-	11,131	-	896,852
Gain on disposal of property and equipment	(14,500)	-	-	-	(14,500)
Loss on impairment of assets held for sale	367,336	-	-	-	367,336
Unrealized gain on interest rate swap agreement	(616)	-	-	-	(616)
Change in value of beneficial interest in assets held by community foundations	(3,461)	-	-	-	(3,461)
Realized and unrealized gain on investments	-	(600,190)	-	-	(600,190)
Change in discount on promises to give	(18,993)	-	-	-	(18,993)
Change in allowance for credit losses	(92,099)	-	-	-	(92,099)
Change in assets and liabilities					
Accounts receivable - fee for service, net	230,095	-	(3,226)	-	226,869
Accounts receivable - grants and contracts, net	524,080	-	-	-	524,080
Promises to give, net	78,988	-	-	-	78,988
Prepaid expenses	(242,734)	-	-	-	(242,734)
Operating lease assets and liabilities	(17,459)	-	-	-	(17,459)
Accounts payable	(130,259)	-	4,130	-	(126,129)
Accrued liabilities	(36,539)	-	(643)	-	(37,182)
Refundable advances	(110,662)	-	-	-	(110,662)
Net Cash from (used for) Operating Activities	656,593	(118,207)	10,798	-	549,184
Investing Activities					
Purchases of investments	-	(2,389,302)	-	-	(2,389,302)
Sales and maturities of investments	125,063	2,287,151	-	-	2,412,214
Proceeds from sale of property and equipment	14,500	-	-	-	14,500
Purchases of property and equipment	(304,464)	-	(36,805)	-	(341,269)
Net Cash used for Investing Activities	(164,901)	(102,151)	(36,805)	-	(303,857)
Financing Activities					
Principal payments on notes payable	(468,378)	-	-	-	(468,378)
Net Cash used for Financing Activities	(468,378)	-	-	-	(468,378)
Net Change in Cash, Cash Equivalents, and Restricted Cash	23,314	(220,358)	(26,007)	-	(223,051)
Beginning Cash, Cash Equivalents, and Restricted Cash	3,914,429	168,714	197,624	-	4,280,767
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 3,937,743	\$ (51,644)	\$ 171,617	\$ -	\$ 4,057,716
Cash and Cash Equivalents	\$ 3,530,850	\$ (51,644)	\$ 18,344	\$ -	\$ 3,497,550
Cash Limited as to Use	406,893	-	153,273	-	560,166
Total Cash, Cash Equivalents, and Restricted Cash	\$ 3,937,743	\$ (51,644)	\$ 171,617	\$ -	\$ 4,057,716

Lutheran Social Services of South Dakota, Inc. and Consolidated Affiliates
Consolidating Statement of Cash Flows
Year Ended June 30, 2024

	Lutheran Social Services of South Dakota, Inc.	Lutheran Social Services of South Dakota Foundation, Inc.	Lutheran Housing Corporation	Eliminations	Total
Operating Activities					
Change in net assets	\$ 456,681	\$ 2,746,594	\$ 15,564	\$ -	\$ 3,218,839
Adjustments to reconcile change in net assets to net cash from operating activities					
Depreciation	818,181	-	13,870	-	832,051
Loss on disposal of property and equipment	1,735	-	-	-	1,735
Unrealized gain on interest rate swap agreement	(4,105)	-	-	-	(4,105)
Change in value of beneficial interest in assets held by community foundations	(2,962)	-	-	-	(2,962)
Realized and unrealized gain on investments	-	(469,144)	-	-	(469,144)
Change in discount on promises to give	21,469	-	-	-	21,469
Change in allowance for credit losses	83,903	-	-	-	83,903
Contributions restricted for endowment	-	(2,200,000)	-	-	(2,200,000)
Noncash contributions	(150,079)	-	-	-	(150,079)
Change in assets and liabilities					
Accounts receivable - fee for service, net	107,848	-	30,668	-	138,516
Accounts receivable - grants and contracts, net	(354,574)	-	-	-	(354,574)
Promises to give, net	(139,982)	-	-	-	(139,982)
Prepaid expenses	87,056	-	-	-	87,056
Operating lease assets and liabilities	(2,620)	-	-	-	(2,620)
Accounts payable	(54,139)	-	(25,019)	-	(79,158)
Accrued liabilities	(20,140)	-	360	-	(19,780)
Refundable advances	(301,631)	-	-	-	(301,631)
Net Cash from Operating Activities	546,641	77,450	35,443	-	659,534
Investing Activities					
Purchases of investments	(15)	(4,232,414)	-	-	(4,232,429)
Sales and maturities of investments	25,000	2,116,825	-	-	2,141,825
Proceeds from sale of property and equipment	3,311	-	-	-	3,311
Purchases of property and equipment	(463,871)	-	-	-	(463,871)
Net Cash used for Investing Activities	(435,575)	(2,115,589)	-	-	(2,551,164)
Financing Activities					
Principal payments on notes payable	(502,053)	-	-	-	(502,053)
Collections of contributions restricted for endowment	-	2,200,000	-	-	2,200,000
Net Cash (used for) from Financing Activities	(502,053)	2,200,000	-	-	1,697,947
Net Change in Cash, Cash Equivalents, and Restricted Cash	(390,987)	161,861	35,443	-	(193,683)
Beginning Cash, Cash Equivalents, and Restricted Cash	4,305,416	6,853	162,181	-	4,474,450
Ending Cash, Cash Equivalents, and Restricted Cash	\$ 3,914,429	\$ 168,714	\$ 197,624	\$ -	\$ 4,280,767
Cash and Cash Equivalents	\$ 3,513,225	\$ 168,714	\$ 30,523	\$ -	\$ 3,712,462
Cash Limited as to Use	401,204	-	167,101	-	568,305
Total Cash, Cash Equivalents, and Restricted Cash	\$ 3,914,429	\$ 168,714	\$ 197,624	\$ -	\$ 4,280,767

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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 Health and Human Services:</u>				
Direct Programs:				
1810/1770				
1815/1760				
1750/1751				
1753/1755	Refugee and Entrant Assistance -			
1755/1820	State Administered Programs	93.566	\$ 2,434,410	\$ 162,455
5553/5661	Basic Center Grant	93.623	163,676	-
1650	Refugee and Entrant Assistance Wilson/Fish Program	93.583	116,143	-
Passed through South Dakota Department of Health				
5902	Affordable Care Act Personal Responsibility Education Programs	93.092	25SC091130	206,121
5904	Title V State Sexual Risk Avoidance Education Programs	93.235	25SC091143	27,303
Passed through South Dakota Department of Public Safety				
ARP	COVID-19 Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	2021-ARP-00023	1,401
Passed through Lutheran Immigration and Refugee Services dba Global Refuge				
1890/1891	Refugee and Entrant Assistance		342-24-00	
1805/1808	Voluntary Agency Programs	93.567	342-25-00	184,945
1809/1875	Refugee and Entrant Assistance Discretion:	93.576	354-25-00	242,438
Total Department of Health and Human Services			<u>3,376,437</u>	<u>162,455</u>
<u>Department of State:</u>				
Passed through United States Conference of Catholic Bishops, Migration and Refugee Services				
1620/1625	U.S. Refugee Admissions Program	19.510	SPRMC020CA0024	7,426
Passed through Lutheran Immigration and Refugee Service dba Global Refuge				
1800/1801				
1802/1803				
1880/1700			323-23-00	
1702/1703	U.S. Refugee Admissions Program	19.510	323A-25-00	784,095
Total U.S. Refugee Admissions Program			<u>791,521</u>	<u>-</u>

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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 Agriculture:</u>				
Direct Programs:				
Community Facilities Loans and Grants	10.766		\$ 748,924	\$ -
Passed through South Dakota Division of Educational Services and Support				
Child Nutrition Cluster				
School Breakfast Program	10.553	6140100	56,585	-
National School Lunch Program	10.555	6140100	102,568	-
Total Child Nutrition Cluster			159,153	-
Child and Adult Care Food Program	10.558	6140100	5,862	-
Total Department of Agriculture			913,939	-
<u>Department of Homeland Security:</u>				
Direct Program:				
1845 Citizenship Education and Training	97.010		87,657	-
<u>Department of Justice:</u>				
Direct Programs:				
1218 Children of Incarcerated Parents Web Portal	16.832		138,458	-
Passed through South Dakota Department of Corrections				
Juvenile Justice and Delinquency		2019MUFX0019		
0080 Prevention	16.540	2018-JXFX-0020	55,011	-
Passed through South Dakota Network Against Family Violence and Sexual Assault				
1216 Justice Systems Response to Families	16.021	15JOVW-22-GG- 00218-JFFX	83,229	-
Passed through South Dakota Department of Public Safety				
Crime Victim Assistance	16.575	2024-COMBO-00031 2025-COMBO-04963 2025-COMBO-00045	20,876	-
Sexual Assault Services Formula Program	16.017	2024-COMBO-00031 2025-COMBO-04963 2025-COMBO-00045	15,865	-
Total Department of Justice			313,439	-
<u>Department of Education:</u>				
Passed through South Dakota Department of Education				
0070 COVID-19 Education Stabilization Fund	84.425	2023G-639	77	-
Passed through South Dakota Department of Labor				
1850 Adult Education - Basic Grants to States	84.002	25-AB-005	272,471	-
Total Department of Education			272,548	-

Lutheran Social Services of South Dakota, Inc.
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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	\$ 99,899	\$ -
6618/6619 COVID-19 Emergency Rental Assistance Program	21.023	Unknown	669,541	-
Total Department of Treasury			769,440	-
<u>Department of Housing and Urban Development:</u>				
Passed through South Dakota Housing Development Authority				
6620 Housing Counseling Assistance Program	14.169	HC220841001	144,378	-
Total Federal Financial Assistance			\$ 6,669,359	\$ 162,455

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, 2025. 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 de minimis cost rate.

Note 4 - Amounts Reported on the Consolidated Schedule of Expenditures of Federal Awards

Federal reimbursements for the Child Nutrition Cluster are not based upon specific expenditures. The federal expenditures reported on the schedule are based on type of meal and eligible number of meals served.

Federal reimbursements for the Sexual Assault Services Formula Program, FFAL #16.017, Crime Victim Assistance, FFAL #16.575, and COVID-19 Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services, FFAL #93.671 are not based upon specific expenditures. The federal expenditures reported on the schedule are based upon the length of session and eligible number of sessions provided.

Note 5 - Loans Outstanding

Total expenditures as reported on the schedule 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, 2025. As of June 30, 2025, the Organization has a \$721,890 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 Consolidated 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, 2025, 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 December 19, 2025.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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*.

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
December 19, 2025



**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

Opinion on Each Major Federal Program

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, 2025. 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.

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 for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

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 opinion 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.

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 \$2,131,797 in federal awards which are not included in the consolidated schedule of expenditures of federal awards during the year ended June 30, 2025. Our compliance audit, described in the "Opinion on Each Major Federal Program", 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, 2024.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2025-001, 2025-002, and 2025-003 to be significant deficiencies.

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
December 19, 2025

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	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(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
U.S. Refugee Admissions Program	19.510
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

Our audit disclosed no findings required to be reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2025-001 Administration for Children and Families
Federal Financial Assistance Listing #93.566, 2302SDRCMA, 10/01/2022 – 9/30/2024
Federal Financial Assistance Listing #93.566, 2402SDRCMA, 10/01/2023 – 9/30/2026

Refugee and Entrant Assistance – State Administered Programs

Eligibility
Significant Deficiency in Internal Control over Compliance

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

Condition: Two instances were identified where the participant was underpaid based upon eligibility for one month (2 participant files).

Cause: The participant in each case obtained employment and no monthly redetermination form was completed to ensure the participant no longer was eligible to receive the monthly cash assistance. Additionally, the Organization experienced an increase in refugee arrivals at the beginning of the fiscal year creating an increase in the workload of staff members.

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: None reported. The grant was under allocated.

Context/Sampling: A nonstatistical sample of 60 participant case files out of more than 250 participant case files were selected for testing which included \$149,528 of participant payments out of \$668,330.

Repeat Finding from Prior Year: Yes, prior year finding 2024-003

Recommendation: We recommend 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.

Finding 2025-002 **Passed through Lutheran Immigration and Refugee Service dba Global Refuge
Federal Financial Assistance Listing #19.510, 323-24-00, 10/01/2023 – 9/30/2024
Federal Financial Assistance Listing #19.510, 323-25-00, 10/01/2024 – 9/30/2025**

U.S. Refugee Admissions Program

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

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

Condition: In the sample of expenditures selected for testing, two instances were identified where the approval over the expense occurred after the check was written.

Cause: The Organization underwent a transitional phase from paper-based documentation to a digital workflow using Salesforce. This system change likely contributed to deviations in the established processes and internal controls, including the sequence of expense approvals.

Effect: Lack of compliance with designed internal controls over disbursements allows for payment of expenses that were not approved prior to checks being written.

Questioned Costs: None reported.

Context/Sampling: A nonstatistical sample of 60 payroll and nonpayroll disbursements out of more than 250 payroll and nonpayroll disbursements were selected for testing which included \$31,198 out of \$756,944.

Repeat Finding from Prior Year: No

Recommendation: We recommend management review the Organization's policies, procedures and controls over expenses with applicable program employees to ensure approval of expenses occurs prior to checks being written and payments being made.

View of Responsible Officials: Management is in agreement.

Finding 2025-003 **Passed through Lutheran Immigration and Refugee Service dba Global Refuge
Federal Financial Assistance Listing #19.510, 323-24-00, 10/01/2023 – 9/30/2024
Federal Financial Assistance Listing #19.510, 323-25-00, 10/01/2024 – 9/30/2025**

U.S. Refugee Admissions Program

Special Tests and Provisions

Significant Deficiency in Internal Control over Compliance

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

Condition: We noted the following matters during testing which affected 2 participant files:

- a) One instance was identified where documentation for both the initial home visit and the 30-day follow-up home visit was missing from the participant file. No case activity or other documentation was able to be provided to indicate that these visits were conducted in accordance with the federal program.
- b) One instance was identified where an expense was paid and reimbursed under the grant without evidence of a formal request, invoice support, review, or approval.

Cause: The Organization experienced an increase in refugee arrivals at the beginning of the fiscal year creating an increase in the workload of staff members along with employee turnover occurring toward the end of the fiscal year. Additionally, the Organization underwent a transitional phase from paper-based documentation to a digital workflow using Salesforce. This system change likely contributed to deviations in established processes and internal controls.

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 case file management.

Questioned Costs: \$39

Context/Sampling: A nonstatistical sample of 18 participant files out of 117 total participant files were selected for testing.

Repeat Finding from Prior Year: No

Recommendation: We recommend that management review the Organization's policies, procedures and controls over case file management 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, 2025

Prepared by Management of
Lutheran Social Services of South Dakota

Summary Schedule of Prior Audit Findings

Financial Statement Findings

Finding 2024-001 Preparation of Financial Statements and Audit Adjustments

Initial Fiscal Year Finding Occurred: 2023

Finding Summary: Lutheran Social Services requested Eide Bailly, LLP to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. Eide Bailly, LLP also proposed a certain adjustment, not considered material, to the trial balance as a part of the audit. Eide Bailly, LLP also proposed adjusting journal entries that management elected to not post to the trial balance, because they were not considered to be material.

Status: Resolved.

Federal Award Finding

Finding 2024-002

Federal Agency Name: Department of Health and Human Services

Assistance Listing Number: 93.566

Program Name: Refugee and Entrant Assistance – State Administered Program

Reporting

Initial Fiscal Year Finding Occurred: 2020

Finding Summary: The FFATA report filed for Huron School District included the incorrect Subaward Obligation/Action Date within the FFATA Subaward Reporting System.

Status: Resolved.

Finding 2024-003

Federal Agency Name: Department of Health and Human Services

Assistance Listing Number: 93.566

Program Name: Refugee and Entrant Assistance – State Administered Program

Eligibility

Initial Fiscal Year Finding Occurred: 2022

Finding Summary:

- a. One instance in which a family was overpaid for one month due to the family obtaining employment.
- b. One instance in which a family was underpaid for one month based upon their family size and eligibility for the month. Additionally, documentation was not retained to support one month's

redetermination of eligibility and check copies for two months were not retained to support the payment to the family.

- c. Three instances in which a family was underpaid based upon their family size and eligibility for the month.
- d. One instance in which a check was written to a family who out-migrated from the state of South Dakota and the family did not cash the check; however, the expenses remained to be charged under the Refugee Cash Assistance program.

Status: Ongoing - Procedures continue to be reviewed with staff to ensure staff members understand calculating family size and eligibility. A similar finding was reported as 2025-001.

Corrective Action Plan

Financial Statement Findings

None

Federal Award Finding

Finding 2025-001

Federal Agency Name: Department of Health and Human Services

Assistance Listing Number: 93.566

Program Name: Refugee and Entrant Assistance – State Administered Programs

Eligibility

Finding Summary: Two instances were identified where the participant was underpaid based upon eligibility for one month.

Responsible Individuals: Nathan Beyer, Staci Jonson, Dana Boraas

Corrective Action Plan: Procedures will be reviewed with staff to ensure staff are fully trained on how to calculate eligibility, and to ensure proper documentation is retained when there are barriers to determining that eligibility.

Anticipated Completion Date: December 31, 2025

Finding 2025-002

Federal Agency Name: Department of State

Assistance Listing Number: 19.510

Program Name: U.S. Refugee Admissions Program

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Finding Summary: Two instances were identified where the approval over the expense occurred after the check was written.

Responsible Individuals: Nathan Beyer, Staci Jonson, Dana Boraas

Corrective Action Plan: Procedures will be reviewed with staff to ensure staff are fully trained on the proper sequence of approval and release of checks. Where appropriate, procedures may be modified to ensure proper approval is obtained and documented, prior to checks being delivered to clients.

Anticipated Completion Date: December 31, 2025

Finding 2025-003

Federal Agency Name: Department of State

Assistance Listing Number: 19.510

Program Name: U.S. Refugee Admissions Program

Special Tests and Provisions

Finding Summary:

- a. One instance was identified where documentation for both the initial home visit and the 30-day follow-up home visit was missing from the participant file. No case activity or other documentation was able to be provided to indicate that these visits were conducted in accordance with the federal program.
- b. One instance was identified where an expense was paid and reimbursed under the grant without evidence of a formal request, invoice support, review, or approval.

Responsible Individuals: Nathan Beyer, Staci Jonson, Dana Boraas

Corrective Action Plan: Procedures will be reviewed with staff to ensure staff are fully trained on required documentation needed to maintain a complete case file, and that documentation is being completed and retained.

Anticipated Completion Date: December 31, 2025