

**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2021 AND 2020**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Children's Home Society of Minnesota  
St. Paul, Minnesota

We have audited the accompanying financial statements of Children's Home Society of Minnesota (the Organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors  
Children's Home Society of Minnesota

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 4, 2021

**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2021 AND 2020**

<b>ASSETS</b>	2021	2020
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 106,967	\$ 121,457
Accounts Receivable, Net	1,141,990	822,354
Prepaid Expenses and Other	168,159	130,519
Total Current Assets	1,417,116	1,074,330
<b>PROPERTY AND EQUIPMENT, NET</b>		
Property and Equipment	10,494,203	10,848,908
Less: Accumulated Depreciation	(4,710,095)	(4,911,015)
Total Property and Equipment, Net	5,784,108	5,937,893
<b>OTHER ASSETS</b>		
Investments	9,001,201	7,346,084
Contributions Receivable Under Split Interest Agreements	-	42,088
Investments Held for Trust	198,692	159,960
Beneficiary Interest in Perpetual Trust	2,109,978	1,657,367
Accounts Receivable from Related Party under Management Agreement	706,245	403,979
Long-Term Pledge Receivable	-	9,585
Total Other Assets	12,016,116	9,619,063
Total Assets	\$ 19,217,340	\$ 16,631,286
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Other Accrued Liabilities	\$ 1,673	\$ -
Due to LSS, Current Portion (See Note 13)	332,806	65,205
Deferred Revenue	106,356	116,218
International Program Liability	587,456	567,609
Refundable Fees and Deposits	168,500	220,125
Accrued Compensation	385,000	363,530
Total Current Liabilities	1,581,791	1,332,687
<b>NONCURRENT LIABILITIES</b>		
Long-Term Liability Due to LSS (See Note 13)	804,475	1,343,117
Postretirement Benefits Obligation	8,605	58,744
Total Noncurrent Liabilities	813,080	1,401,861
Total Liabilities	2,394,871	2,734,548
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions	5,248,430	4,501,075
Net Assets With Donor Restrictions	11,574,039	9,395,663
Total Net Assets	16,822,469	13,896,738
Total Liabilities and Net Assets	\$ 19,217,340	\$ 16,631,286

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Support:			
United Way	\$ 1,441	\$ -	\$ 1,441
Contributions	1,533,762	295,253	1,829,015
Change in Value of Beneficial Interest Holdings	-	452,611	452,611
Investment Income	2,819	1,859,250	1,862,069
Total Support	1,538,022	2,607,114	4,145,136
Revenue:			
Fees for Services	2,100	-	2,100
Fees and Grants from Governmental Agencies	1,984,274	-	1,984,274
International Adoption Fees	872,486	-	872,486
Rent and Miscellaneous Income	314,451	-	314,451
Total Revenue	3,173,311	-	3,173,311
Net Assets Released from Restrictions	428,738	(428,738)	-
Total Support and Revenue	5,140,071	2,178,376	7,318,447
<b>EXPENSE</b>			
Program Services	3,262,265	-	3,262,265
Support Services:			
Finance and Administration	730,530	-	730,530
Development and Community Relations	399,921	-	399,921
Total Support Services	1,130,451	-	1,130,451
Total Expense	4,392,716	-	4,392,716
<b>CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES</b>	747,355	2,178,376	2,925,731
<b>NONOPERATING ACTIVITIES</b>			
Pass-Through Revenues	338,681	-	338,681
Pass-Through Expenses	(338,681)	-	(338,681)
Total Nonoperating Activities	-	-	-
<b>CHANGE IN NET ASSETS</b>	747,355	2,178,376	2,925,731
Net Assets - Beginning of Year	4,501,075	9,395,663	13,896,738
<b>NET ASSETS - END OF YEAR</b>	\$ 5,248,430	\$ 11,574,039	\$ 16,822,469

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Support:			
United Way	\$ 7,087	\$ -	\$ 7,087
Contributions	1,705,114	286,307	1,991,421
Change in Value of Split Interest Agreements and Change in Value of Investments Held for Trust	-	17,306	17,306
Change in Value of Beneficial Interest Holdings	-	(95,132)	(95,132)
Investment Income	(1,098)	(77,408)	(78,506)
Total Support	<u>1,711,103</u>	<u>131,073</u>	<u>1,842,176</u>
Revenue:			
Fees for Services	3,500	-	3,500
Fees and Grants from Governmental Agencies	1,526,832	-	1,526,832
International Adoption Fees	1,068,957	-	1,068,957
Rent and Miscellaneous Income	273,506	-	273,506
Total Revenue	<u>2,872,795</u>	<u>-</u>	<u>2,872,795</u>
Net Assets Released from Restrictions	<u>481,157</u>	<u>(481,157)</u>	<u>-</u>
Total Support and Revenue	5,065,055	(350,084)	4,714,971
<b>EXPENSE</b>			
Program Services	3,109,597	-	3,109,597
Support Services:			
Finance and Administration	771,925	-	771,925
Development and Community Relations	427,452	-	427,452
Total Support Services	<u>1,199,377</u>	<u>-</u>	<u>1,199,377</u>
Total Expense	<u>4,308,974</u>	<u>-</u>	<u>4,308,974</u>
<b>CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES</b>	756,081	(350,084)	405,997
<b>NONOPERATING ACTIVITIES</b>			
Pass-Through Revenues	463,178	-	463,178
Pass-Through Expenses	(463,178)	-	(463,178)
Total Nonoperating Activities	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	756,081	(350,084)	405,997
Net Assets - Beginning of Year	<u>3,744,994</u>	<u>9,745,747</u>	<u>13,490,741</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,501,075</u>	<u>\$ 9,395,663</u>	<u>\$ 13,896,738</u>

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2021**

	Supporting Services				Total All Services
	Program Services	Finance and Administration	Development and Community Relations	Total Support Services	
Salaries	\$ 1,766,566	\$ 242,348	\$ 261,880	\$ 504,228	\$ 2,270,794
Employee Benefits and Payroll Taxes	406,164	33,608	48,722	82,330	488,494
Total Personnel Costs	<u>2,172,730</u>	<u>275,956</u>	<u>310,602</u>	<u>586,558</u>	<u>2,759,288</u>
Professional Fees and Contract Services	78,986	192,932	5,012	197,944	276,930
Supplies	4,689	4,345	-	4,345	9,034
Communications	37,009	16,678	77,035	93,713	130,722
Occupancy	299,063	54,739	7,272	62,011	361,074
Equipment	37,260	44,049	-	44,049	81,309
Transportation	11,003	132	-	132	11,135
Staff Development	10,669	705	-	705	11,374
Client and Volunteer Expenses	440,628	106	-	106	440,734
Community Support and Other Expenses	69,163	6,917	-	6,917	76,080
Total Expense Before Depreciation	<u>3,161,200</u>	<u>596,559</u>	<u>399,921</u>	<u>996,480</u>	<u>4,157,680</u>
Depreciation	<u>101,065</u>	<u>133,971</u>	<u>-</u>	<u>133,971</u>	<u>235,036</u>
Total Expense	<u><u>\$ 3,262,265</u></u>	<u><u>\$ 730,530</u></u>	<u><u>\$ 399,921</u></u>	<u><u>\$ 1,130,451</u></u>	<u><u>\$ 4,392,716</u></u>

See accompanying Notes to Financial Statements.



**CHILDREN'S HOME SOCIETY OF MINNESOTA  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2020**

	Supporting Services				Total All Services
	Program Services	Finance and Administration	Development and Community Relations	Total Support Services	
Salaries	\$ 1,515,693	\$ 212,035	\$ 198,459	\$ 410,494	\$ 1,926,187
Employee Benefits and Payroll Taxes	484,933	140,332	106,862	247,194	732,127
Total Personnel Costs	<u>2,000,626</u>	<u>352,367</u>	<u>305,321</u>	<u>657,688</u>	<u>2,658,314</u>
Professional Fees and Contract Services	92,322	204,429	3,308	207,737	300,059
Supplies	3,262	12,927	-	12,927	16,189
Communications	33,836	26,158	106,180	132,338	166,174
Occupancy	298,560	(1,537)	9,645	8,108	306,668
Equipment	8,061	6,246	-	6,246	14,307
Transportation	44,601	1,187	10	1,197	45,798
Staff Development	9,611	6,825	470	7,295	16,906
Client and Volunteer Expenses	433,699	3,115	6	3,121	436,820
Community Support and Other Expenses	86,409	29,492	2,512	32,004	118,413
Total Expense Before Depreciation	<u>3,010,987</u>	<u>641,209</u>	<u>427,452</u>	<u>1,068,661</u>	<u>4,079,648</u>
Depreciation	<u>98,610</u>	<u>130,716</u>	<u>-</u>	<u>130,716</u>	<u>229,326</u>
Total Expense	<u><u>\$ 3,109,597</u></u>	<u><u>\$ 771,925</u></u>	<u><u>\$ 427,452</u></u>	<u><u>\$ 1,199,377</u></u>	<u><u>\$ 4,308,974</u></u>

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,925,731	\$ 405,997
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	235,036	229,326
Realized and Unrealized (Gain) Loss on Investments	(1,856,116)	213,786
Contributions Restricted for Investment in Endowment	(21,335)	(31,110)
Change in Value of Contributions Receivable under Split Interest Agreements	(3,136)	2,012
Change in Value of Beneficial Interest in Perpetual Trust Liability Under Trust and Annuity Agreements	(532,611)	27,632
Changes in Current Assets and Liabilities:	-	(20,011)
Accounts Receivable	(310,051)	25,161
Prepaid Expenses and Other	(37,640)	67,837
Accounts Payable and Other Accrued Liabilities	1,673	(25,254)
Deferred Revenue	(9,862)	(13,150)
Pension Obligation	-	(1,513,687)
Refundable Fees and Deposits	(51,625)	(53,000)
Other Accrued Expenses	41,317	(4,286)
Net Cash Provided (Used) by Operating Activities	381,381	(688,747)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	(133,923)	(137,877)
Distribution Received from Perpetual Trust	296,190	258,288
Receipt of Contributions Receivable Under Split Interest Agreement	80,000	67,500
Purchases of Property and Equipment	45,224	-
Net Cash Provided by Investing Activities	206,240	112,351
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Contributions Restricted for Investment in Endowment	21,335	31,110
Proceeds of Borrowings from LSS, Pension Related	-	1,512,544
Debt Principal Payments to LSS	(271,041)	(104,222)
Change in Accounts Receivable from LSS Related to Operations	(302,266)	(403,979)
Change in Accounts Payable to LSS under Management Agreement	-	(458,868)
Change in Postretirement Benefit Obligation	(50,139)	(4,496)
Net Cash Provided (Used) by Financing Activities	(602,111)	572,089
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(14,490)	(4,307)
Cash and Cash Equivalents - Beginning of Year	121,457	125,764
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 106,967	\$ 121,457

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Organization**

Founded in 1889, Children's Home Society of Minnesota (the Organization) has as its mission to help children thrive, and to build, strengthen, and sustain family and community life.

Primary sources of revenue are derived from client service fees, government grants, and contributions from the general public. The Organization is licensed by the Minnesota Department of Human Services; fully accredited by the National Council of Accreditation; Hauge accredited as an adoption service provider; and meets all standards established by the Minnesota Charities Review Council.

The Organizations programs are as follows:

**Adoption and Post-Adoption Services**

The Organization's adoption program includes the Domestic infant program, Adoption from Minnesota Foster Care program, international programs, and a post-adoption program.

The Organization maintains offices in the St. Paul-Minneapolis and Washington D.C. metropolitan areas to serve families in Minnesota, Wisconsin, Maryland, and Virginia. Using a network of partner agencies, the Organization serves families throughout the U.S. with cooperative adoption.

The Organization's post-adoption services were the first of their kind in the U.S., and provide domestic search and background services; international search and outreach services; birth-land tours; and support, counseling, and educational services to all members of the adoptive circle.

**International Child Welfare (ICW)**

To date, the Organization has distributed \$5 million to 15 countries through special projects, financial support, and volunteers donating their time for various efforts to support both children and caregivers. ICW programs make a difference in the lives of thousands of children today and for generations to come.

The Organization formally affiliated with Lutheran Social Service of Minnesota (LSS), a nonprofit organization, on October 1, 2014. Under the affiliation agreement, LSS appoints up to 70% of the Organization's directors. Accordingly, the Organization's financial statements are consolidated into the financial statements of LSS. As described in Note 16, the Organization operates under a management agreement with LSS.

The Organization is the sole corporate member of the Children's Home Society Foundation (the Foundation). The Foundation's board of directors consists of the 30% of the Organization's directors that are not appointed by LSS. The Foundation's financial statements are not reflected in this report due to the immaterial nature. The Foundation is included in management agreement with LSS.

**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

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

*Net Assets Without Donor Restrictions* – are not restricted by donors, or the donor-imposed restrictions have expired. Net assets without donor restrictions represent funds that are fully available, at the discretion of management and the board of directors for the Organization to utilize in any of its programs or supporting services.

*Net Assets With Donor Restrictions* – are comprised of funds subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, and certain income earned on net assets with donor restrictions that has not yet been appropriated for expenditure by the Organization's board of directors. Other donor-imposed restrictions are perpetual on 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 statement of activities as Net Assets Released from Restrictions.

**Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times deposits may be in excess of Federal Deposit Insurance Corporation insurance limits. At times, the investment portfolio may contain cash and cash equivalents that are included in investments in the statements of financial position.

**Accounts Receivable**

Accounts receivable are stated at net realizable value. Payment is required 30 days after receipt of the invoice. Accounts more than 90 days past due are individually analyzed for collectibility. Accordingly, bad debts are provided for using the reserve method based upon prior experience and management's assessment of the collectibility of existing specific accounts. When all collection efforts have been exhausted, the accounts are written off against the related allowance. Management has determined that no allowance is necessary as of June 30, 2021 and 2020.

**Property and Equipment**

Property and equipment purchases are recorded at cost. The Organization capitalizes property and equipment purchases when the cost per item is in excess of \$1,500. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as contributions without donor restrictions.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Leasehold Improvements (Using the Shorter of Asset Life or Lease Term for Leasehold Improvements)	10 to 50 Years
Furniture and Equipment	5 to 10 Years
Information Systems Equipment and Software	3 to 5 Years

Depreciation relating to property and equipment specifically identified with a program or supporting service is allocated to the appropriate service. Depreciation relating to property and equipment utilized by more than one service is allocated to each of the services on a pro rata basis.

**Investments**

Investments of the Organization are recorded at fair market value. The Organization invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported.

**Contributions Receivable Under Split Interest Agreements**

Remainder trust agreements are recognized as contributions with donor restrictions and as a receivable at the present value of the estimated future benefits to be received when the trust assets are distributed. Any changes in the value of the trust agreements are reported as a change in the value of the contribution receivable.

**Beneficial Interest in Perpetual Trust**

The Organization is a 5% benefactor of a trust held by a third party. The asset was recorded as a donor-restricted contribution at the present value of the estimated future cash receipts. The valuation of the Organization's interest in the perpetual trust is adjusted to fair market value at the statement of financial position date.

**Defined Postretirement Benefits**

The Organization has an unfunded postretirement benefit plan to provide health and life insurance benefits after age 65 for those individuals in certain work classification who were hired prior to January 1, 1984 and who terminate employment with at least 20 years of service. The related liability was reduced as of June 30, 2021, to reflect participants who have passed away.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements**

The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. Investments are stated at fair value and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The Organization also accounts for certain assets at fair value under applicable industry guidance.

**Fair Value Hierarchy**

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, long-term promises to give, split-interest agreements, and long-term grants payable).

**International Adoption Revenue Recognition**

Revenue recognition of international adoption fees occurs as follows: Half of the initial coordination fees are recognized at the initiation of the adoption process; the remaining portion is amortized over 16 months, management's estimated average length of time until an adoption is completed. Country fees are recognized when earned and a portion is deferred as pass-through to country programs. International program liabilities at June 30, 2021 and 2020 consist of funds received for adoptions and other services in process for which corresponding expenses have not yet been incurred.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

The Organization reports gifts as donor-restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, donor-restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of activities as Net Assets Released from Restrictions.

**Donated Services and Property**

Numerous volunteers donated their time and skills during the year to the Organization. Although these services are valuable to the Organization, they do not meet the criteria required by accounting standards to be recorded in the financial statements. These additional volunteer hours totaled approximately 622 and 1,537 in the years ended June 30, 2021 and 2020, respectively.

**Government Grants and Contracts**

Government grants and contracts are recognized as earned. Unexpended receipts are considered grant advances and recorded in refundable fees and deposits. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

**Concentrations**

The Organization maintains accounts at several financial institutions. At times, the amounts may be in excess of federally insured limits.

**Functional Allocation of Expense**

Salaries and related benefits are allocated based on employees' and management's direct time spent on program or support activities or the best estimate of time spent. Occupancy and depreciation are allocated based on direct program or support service usage. Other expenses, such as professional fees and staff development, are directly identified to specific programs or administrative functions.

**Advertising Costs**

Advertising costs are expensed as incurred. Total advertising expenses were approximately \$17,000 and \$12,000 for the years ended June 30, 2021 and 2020, respectively.

**Tax-Exempt Status**

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state statutes and is generally not subject to income taxes. It has been classified as an organization that is not a private foundation under the IRC. Charitable contributions by donors are tax deductible.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tax-Exempt Status (Continued)**

The Organization follows the income tax standard regarding the recognition and measurement of uncertain tax position. The Organization's tax returns are subject to review by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates used.

**Pass-Through Activities**

Pass-through revenues and expenses relate to adoption funds handled by the Organization to which the Organization has no right to recognize as revenue or record as expenses.

**Reclassifications**

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

**Liquidity and Availability**

As part of the Organization's liquidity management, it has an affiliation with LSS and invests cash in excess of daily requirement in repayment of short-term cash advances from LSS. In the event of an unanticipated liquidity need, the Organization also could draw upon short-term cash advances from LSS, which has a \$3 million line of credit to support cash flow needed for operations. The following reflects the Organization's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include unappropriated earnings of the endowment funds that could be drawn upon if the governing board approves that action.

	<u>2021</u>	<u>2020</u>
Cash, Accounts Receivable and Investments as of June 30	\$ 10,956,403	\$ 8,693,874
Less:		
Contractual or Donor Imposed Restrictions Making Financial Assets Unavailable for General Expenditure	<u>(9,265,099)</u>	<u>(7,536,612)</u>
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,691,304</u>	<u>\$ 1,157,262</u>

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 4, 2021, the date the financial statements were available to be issued.



**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting Principles Adopted**

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization's financial statements reflect the adoption of ASU 2014-09 guidance beginning in fiscal year 2021. The adoption of 2014-09 did not impact the Organization's reported revenue.

**NOTE 2 ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30 are as follows:

	2021	2020
Adoption	\$ 845,466	\$ 787,104
Due from Related Party	706,245	403,979
Other	296,524	35,250
Total Accounts Receivable	\$ 1,848,235	\$ 1,226,333

**NOTE 3 PROPERTY AND EQUIPMENT**

A summary of property and equipment at June 30 is as follows:

	2021	2020
Land	\$ 573,040	\$ 573,040
Building and Leasehold Improvements	8,404,984	8,313,244
Furniture and Equipment	959,497	961,147
Information Systems Equipment and Software	243,972	688,767
Donated Artwork	312,710	312,710
Total	10,494,203	10,848,908
Less: Accumulated Depreciation	(4,710,095)	(4,911,015)
Net Property and Equipment	\$ 5,784,108	\$ 5,937,893

Depreciation expense was \$235,056 and \$229,326 for the years ended June 30, 2021 and 2020, respectively.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
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**NOTE 4 INVESTMENTS**

The following is a summary of investments in securities at June 30:

	<u>2021</u>	<u>2020</u>
Money Market	\$ 23,640	7,954
Equities	3,385,498	3,095,412
Fixed Income	1,998,764	1,335,275
Dynamic Asset Allocation Overlay	2,387,759	1,867,513
Alternative Investments	1,205,540	1,039,930
Total Investments	<u>\$ 9,001,201</u>	<u>\$ 7,346,084</u>

**NOTE 5 INVESTMENTS HELD FOR TRUST**

Investments held for trust at June 30 are primarily a managed portfolio and mutual funds of stock and bonds which are held by investment managers and are as follows:

	<u>2021</u>	<u>2020</u>
Equities	\$ 73,425	\$ 62,640
Fixed Income	125,267	97,320
Total	<u>\$ 198,692</u>	<u>\$ 159,960</u>

**NOTE 6 BENEFICIARY INTEREST IN PERPETUAL TRUST**

The Organization is named as a 5% beneficiary of a perpetual trust held by a third party. The Organization will receive 5% of the designated distributions from the trust. The value of the Organization's interests in the trust at June 30, 2021 and 2020 totaled \$2,109,978 and \$1,657,024, respectively. Distributions from the trust in 2021 and 2020 totaled \$80,000 and \$67,500, respectively.

**NOTE 7 FAIR VALUE MEASUREMENTS**

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30:

	2021			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 2,124,031	\$ -	\$ -	\$ 2,124,031
Equities	3,458,923	-	-	3,458,923
Beneficiary Interest in Perpetual Trust	-	-	2,109,978	2,109,978
Total	<u>\$ 5,582,954</u>	<u>\$ -</u>	<u>\$ 2,109,978</u>	<u>\$ 7,692,932</u>

  

	2020			
	Level 1	Level 2	Level 3	Total
Fixed Income	\$ 1,432,595	\$ -	\$ -	\$ 1,432,595
Equities	3,158,052	-	-	3,158,052
Beneficiary Interest in Perpetual Trust	-	-	1,657,367	1,657,367
Split-Interest Agreements	-	-	42,088	42,088
Total	<u>\$ 4,590,647</u>	<u>\$ -</u>	<u>\$ 1,699,455</u>	<u>\$ 6,290,102</u>

**Level 3 Assets**

The following tables provide a summary of changes in fair value of the Organization's Level 3 financial assets and liabilities for the years ended June 30:

	Beneficiary Interest in Perpetual Trust	Split-Interest Agreement	Total
Balance - July 1, 2020	\$ 1,657,367	\$ 42,088	\$ 1,699,455
Distributions	(80,000)	(45,224)	(125,224)
Change in Value of Interest	532,611	3,136	535,747
Balance - June 30, 2021	<u>\$ 2,109,978</u>	<u>\$ -</u>	<u>\$ 2,109,978</u>
Balance - July 1, 2019	\$ 1,752,499	\$ 44,100	\$ 1,796,599
Distributions	(67,500)	-	(67,500)
Change in Value of Interest	(27,632)	(2,012)	(29,644)
Balance - June 30, 2020	<u>\$ 1,657,367</u>	<u>\$ 42,088</u>	<u>\$ 1,699,455</u>

The unobservable inputs for Beneficiary Interest in Perpetual Trust and Split-Interest Agreement are the underlying assets controlled by the trustee. The underlying assets consist of securities that are classified as Level 3 assets and the Organization's fair value is determined by taking the fund or trust's total value multiplied by their interest in the fund or trust, as stated in the fund and trust document.

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**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Other Investment Funds/Alternative Investments**

The Organization invests primarily in investment funds, limited partnerships, or interest-bearing securities, referred to collectively for this purpose as investment funds. Investment funds are presented in the accompanying financial statements at fair value as determined under FASB Accounting Standards Codification (ASC) 820: *Fair Value Measurements and Disclosures*. In situations where the investment fund does not have a readily determinable fair value and meets other eligibility criteria, the Organization measures fair value based on net asset value (NAV) per share or its equivalent. The following table lists investments in investment funds by major category:

	2021 Net Asset Value	2020 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dynamic Asset Allocation Overlay	\$ 2,387,759	\$ 1,867,513	\$ -	Monthly	90 Days
Alternative Investments	1,205,540	1,039,930	-	Monthly	30 Days
Total	<u>\$ 3,593,299</u>	<u>\$ 2,907,443</u>	<u>\$ -</u>		

**Basis for Fair Value Measurements**

**Dynamic Asset Allocation Overlay**

Dynamic asset allocation overlay funds include investments in two portfolios that do not have active tickers. The investment objective of these two portfolios is to moderate the volatility of an equity-oriented asset allocation over the long-term. Accordingly, the portfolios may invest in a diversified portfolio of securities. The fund strikes a daily NAV, but because these portfolios are private, this is not published on the NASDAQ.

**Alternative Investments**

Alternative investments represent ownership interests in a fund that exists to seek long-term capital appreciation. The fund seeks to achieve its investment objective primarily by allocating its assets among investments in a diversified portfolio of private investment vehicles, commonly referred to as hedge funds. The fund pursues the following strategies: long/short equity, event driven, credit/distressed, emerging markets, global macro, and other strategies. The fund is valued and traded monthly and generally uses the NAV provided by the underlying portfolios to determine the monthly value of the fund.

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**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2021	2020
Subject to Expenditure for Specified Purpose:		
International Child Welfare	\$ 201,500	\$ 186,414
Other Program	76,851	40,268
Total	278,351	226,682
Subject to Passage of Time:		
Beneficial Interest in Charitable Trusts Held by Others	2,109,978	1,657,367
Assets Held under Split Interest Agreements	198,962	201,684
Total	2,308,940	1,859,051
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	2,048,719	499,635
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity:		
Campaign for Children	2,000,000	2,000,000
Endowment Funds	4,938,029	4,810,295
Total Endowments	8,986,748	7,309,930
Total Net Assets with Donor Restriction	\$ 11,574,039	\$ 9,395,663

**Net Assets Released from Restrictions**

The net assets released from restrictions during the years ended June 30 are as follows:

	2021	2020
Purpose Restrictions	\$ 138,738	\$ 191,157
Appropriation of Endowment Earnings	290,000	290,000
Total	\$ 428,738	\$ 481,157

**NOTE 9 ENDOWMENTS**

The Organization's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as an endowment. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**CHILDREN'S HOME SOCIETY OF MINNESOTA  
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**NOTE 9 ENDOWMENTS (CONTINUED)**

**Interpretation of Relevant Law**

The board of directors has interpreted the Minnesota 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as donor-restricted net assets the original value of the gifts to the perpetual endowment, the value of subsequent gifts to the perpetual endowment, plus any required inflationary adjustments to the original gifts. The remaining portion of donor-restricted net assets is classified as donor-restricted net assets until those amounts are appropriated for expenditure by the Organization. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. All funds shall be used as the donor intended at the time the Organization solicited or accepted the gift.
2. Investment portfolio shall provide long-term, real (inflation-adjusted) growth.
3. Provide a predictable stream of income to the Organization for programs.
4. Follow investment policies of the Organization.
5. Other resources of the Organization.
6. General economic conditions.

The following is a reconciliation of endowment activities for the years ended June 30:

	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds - July 1, 2020	\$ -	\$ 7,309,930	\$ 7,309,930
Investment Return:			
Investment Income	-	106,399	106,399
Net Realized and Unrealized Gains	-	1,839,084	1,839,084
Total Investment Return	-	1,945,483	1,945,483
Contributions	-	21,335	21,335
Appropriation of Endowment Assets for Expenditure	-	(290,000)	(290,000)
Donor-Restricted Endowment Funds - June 30, 2021	\$ -	\$ 8,986,748	\$ 8,986,748

**CHILDREN'S HOME SOCIETY OF MINNESOTA**  
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**NOTE 9 ENDOWMENTS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds - July 1, 2019	\$ -	\$ 7,633,654	\$ 7,633,654
Investment Return:			
Investment Income	-	12,574	12,574
Net Realized and Unrealized Gains	-	(77,408)	(77,408)
Total Investment Return	-	(64,834)	(64,834)
Contributions	-	31,110	31,110
Appropriation of Endowment Assets for Expenditure	-	(290,000)	(290,000)
Donor-Restricted Endowment Funds - June 30, 2020	\$ -	\$ 7,309,930	\$ 7,309,930

**Fund with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies at June 30, 2021 and 2020 resulting from unfavorable market fluctuations.

**Spending Policy**

Annual distributions of endowment funds are based on an amount up to 5% of their 12-quarter average market value. In establishing this policy, the Organization considered the long-term expected return on its endowment. At no time will the distributions reduce the value of the endowment below the perpetual net asset portion of the endowment.

For the years ended June 30, 2021 and 2020, there was \$290,000 for board-approved appropriations of endowment earnings. In each case, the board carefully considered the factors specified in UPMIFA governing appropriation of funds.

**Investment Objectives and Strategies**

The Organization has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Investment Committee of the board of directors, the endowment assets are invested in a manner that is intended to maintain the purchasing power of the current assets and all future contributions, maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy.

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**NOTE 9 ENDOWMENTS (CONTINUED)**

**Investment Objectives and Strategies (Continued)**

To achieve these objectives, the Organization follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. These total returns are intended to meet or exceed the composite performance of the securities markets on a three to five-year basis. Actual returns in any given year may vary from this amount.

**NOTE 10 LEASE COMMITMENTS**

The Organization leases office and program space under operating lease agreements, which vary in length. Total rent expense for the years ended June 30, 2021 and 2020 was \$31,376 and \$39,283, respectively. The Organization also leases several copier machines under capital and operating leases expiring in various years through fiscal year 2022. Total equipment lease expense for the years ended June 30, 2021 and 2020 was \$3,184 and \$4,881, respectively.

Future minimum lease commitments for all space and equipment lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 14,982
2023	8,023
2022	1,937
2023	1,937
Total	<u>\$ 26,879</u>

**NOTE 11 OTHER RETIREMENT BENEFITS**

The Organization implemented a defined contribution 403(b) plan in June 1994. All employees are eligible immediately upon hire. After one year of service with the Organization or one year of previous service with a qualified nonprofit employer within the last three years, the employer matches up to 1.5% of an employee's salary. All employees are immediately eligible for a 50% employer match up to 2% of the employee's salary. Employer contributions vest over a five-year period. The Organization contributed \$19,443 and \$29,668 to the plan for the years ended June 30, 2021 and 2020, respectively.



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**NOTE 12 RELATED PARTY**

Effective July 1, 2012, the Organization entered into a management agreement with LSS. Under this agreement, LSS provides management and administrative services for the Organization in exchange for a management fee which is calculated based on the Organization's operating revenues.

For the years ended June 30, 2021 and 2020, the management fees were \$126,096 and \$114,554, respectively.

In conjunction with this management agreement LSS and the Organization also signed a lease whereby LSS will lease space from the Organization beginning July 1, 2012 through June 30, 2018 (renewed annually thereafter). The lease provides for annual rental payments to the Organization of approximately \$265,152. The rental revenue for the years ended June 30, 2021 and 2020 was \$265,164 and \$265,214, respectively.

In relation to the management fees and other cash flow, as of June 30, 2021 and 2020, LSS owed the Organization \$691,917 and \$403,979, respectively. In relation to the cash flows, as of June 30, 2021 and 2020, the Foundation owed the Organization \$14,327 and \$11,385, respectively.

In addition, LSS secured a \$3 million line of credit for the Organization's use. During the duration of the agreement, interest on the line of credit shall neither accrue nor be payable to LSS on all nonpension related financing.

The Organization secured its financing for a pension termination in September 2019 with LSS, which entered into a loan with Sunrise Bank (Sunrise) for the Organization's portion of the liability totaling \$1,513,687. The Organization's financing was secured in two parts. A term Loan for \$750,000 bears interest at 5% (locked for 5 years, then variable based on the U.S. Treasury Constant 5-year maturity rate (currently 1.4%), plus a margin of 2.25%), with a loan term of 10 years. The balance of \$763,687 was financed with the line of credit with Sunrise and bears interest at 3.75% for a term of five years. The Organization began making monthly principal and interest payments of approximately \$28,570 (annual amount \$342,840) in October 2019, and will continue for five years. The total balance of the debt as of June 30, 2021 and 2020 is \$1,137,281 and \$1,408,322, respectively, and is reflected as Long-Term Liability Due to LSS and Due to LSS, Current Portion in the statements of financial position.

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