

CHILDREN'S HOME SOCIETY OF MINNESOTA
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021



CPAs | CONSULTANTS | WEALTH ADVISORS

[CLAconnect.com](https://www.CLAconnect.com)

**CHILDREN'S HOME SOCIETY OF MINNESOTA
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2022 AND 2021**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Society of Minnesota as of June 30, 2022 and 2021, and 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). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Children's Home Society of Minnesota 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Children's Home Society of Minnesota'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Home Society of Minnesota'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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 3, 2022

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 100,272	\$ 106,967
Accounts Receivable, Net	1,053,886	1,141,990
Prepaid Expenses and Other	308,979	168,159
Total Current Assets	1,463,137	1,417,116
PROPERTY AND EQUIPMENT, NET		
Property and Equipment	10,652,024	10,494,203
Less: Accumulated Depreciation	(4,946,180)	(4,710,095)
Total Property and Equipment, Net	5,705,844	5,784,108
OTHER ASSETS		
Investments	7,906,648	9,001,201
Investments Held for Trust	-	198,692
Beneficial Interest in Perpetual Trust	1,710,048	2,109,978
Accounts Receivable from Related Party Under Management Agreement	597,770	706,245
Total Other Assets	10,214,466	12,016,116
Total Assets	\$ 17,383,447	\$ 19,217,340
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Other Accrued Liabilities	\$ 10,369	\$ 1,673
Due to LSS, Current Portion (See Note 12)	347,855	332,806
Deferred Revenue	23,276	106,356
International Program Liability	501,831	587,456
Refundable Fees and Deposits	154,500	168,500
Accrued Compensation	358,511	385,000
Total Current Liabilities	1,396,342	1,581,791
NONCURRENT LIABILITIES		
Long-Term Liability Due to LSS (See Note 12)	456,620	804,475
Postretirement Benefits Obligation	-	8,605
Total Noncurrent Liabilities	456,620	813,080
Total Liabilities	1,852,962	2,394,871
NET ASSETS		
Net Assets Without Donor Restrictions	5,661,055	5,248,430
Net Assets With Donor Restrictions	9,869,430	11,574,039
Total Net Assets	15,530,485	16,822,469
Total Liabilities and Net Assets	\$ 17,383,447	\$ 19,217,340

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 1,489,863	\$ 141,346	\$ 1,631,209
Revenue:			
Fees for Services	2,025	-	2,025
Fees and Grants from Governmental Agencies	1,935,725	-	1,935,725
International Adoption Fees	948,416	-	948,416
Loss on Fixed Asset Disposal	(5,319)	-	(5,319)
Rent and Miscellaneous Income	265,891	-	265,891
Total Revenue	<u>3,146,738</u>	<u>-</u>	<u>3,146,738</u>
Net Assets Released from Restrictions	<u>439,343</u>	<u>(439,343)</u>	<u>-</u>
Total Support and Revenue	5,075,944	(297,997)	4,777,947
EXPENSE			
Program Services	3,529,666	-	3,529,666
Support Services:			
Finance and Administration	760,940	-	760,940
Development and Community Relations	371,099	-	371,099
Total Support Services	<u>1,132,039</u>	<u>-</u>	<u>1,132,039</u>
Total Expense	<u>4,661,705</u>	<u>-</u>	<u>4,661,705</u>
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	414,239	(297,997)	116,242
NONOPERATING ACTIVITIES			
Pass-Through Revenues	477,439	-	477,439
Pass-Through Expenses	(477,439)	-	(477,439)
Change in Value of Beneficial Interest Holdings	-	(409,032)	(409,032)
Investment Income	(1,614)	(997,580)	(999,194)
Total Nonoperating Activities	<u>(1,614)</u>	<u>(1,406,612)</u>	<u>(1,408,226)</u>
CHANGE IN NET ASSETS	412,625	(1,704,609)	(1,291,984)
Net Assets - Beginning of Year	<u>5,248,430</u>	<u>11,574,039</u>	<u>16,822,469</u>
NET ASSETS - END OF YEAR	<u>\$ 5,661,055</u>	<u>\$ 9,869,430</u>	<u>\$ 15,530,485</u>

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
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 1,535,203	\$ 295,253	\$ 1,830,456
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	5,137,252	(133,485)	5,003,767
EXPENSE			
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
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	744,536	(133,485)	611,051
NONOPERATING ACTIVITIES			
Pass-Through Revenues	338,681	-	338,681
Pass-Through Expenses	(338,681)	-	(338,681)
Change in Value of Beneficial Interest Holdings	-	452,611	452,611
Investment Income	2,819	1,859,250	1,862,069
Total Nonoperating Activities	2,819	2,311,861	2,314,680
CHANGE IN NET ASSETS	747,355	2,178,376	2,925,731
Net Assets - Beginning of Year	4,501,075	9,395,663	13,896,738
NET ASSETS - END OF YEAR	\$ 5,248,430	\$ 11,574,039	\$ 16,822,469

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Supporting Services				Total All Services
	Program Services	Finance and Administration	Development and Community Relations	Total Support Services	
Salaries	\$ 1,889,745	\$ 231,237	\$ 208,973	\$ 440,210	\$ 2,329,955
Employee Benefits and Payroll Taxes	477,292	84,448	52,243	136,691	613,983
Total Personnel Costs	<u>2,367,037</u>	<u>315,685</u>	<u>261,216</u>	<u>576,901</u>	<u>2,943,938</u>
Professional Fees and Contract Services	128,802	201,679	2,963	204,642	333,444
Supplies	1,179	2,633	-	2,633	3,812
Communications	31,474	24,702	99,616	124,318	155,792
Occupancy	304,122	52,849	6,734	59,583	363,705
Equipment	8,042	26,431	-	26,431	34,473
Transportation	38,063	59	5	64	38,127
Staff Development	10,105	7,269	565	7,834	17,939
Client and Volunteer Expenses	428,270	1,878	-	1,878	430,148
Community Support and Other Expenses	109,634	(8,698)	-	(8,698)	100,936
Total Expense Before Depreciation	<u>3,426,728</u>	<u>624,487</u>	<u>371,099</u>	<u>995,586</u>	<u>4,422,314</u>
Depreciation	<u>102,938</u>	<u>136,453</u>	<u>-</u>	<u>136,453</u>	<u>239,391</u>
Total Expense	<u><u>\$ 3,529,666</u></u>	<u><u>\$ 760,940</u></u>	<u><u>\$ 371,099</u></u>	<u><u>\$ 1,132,039</u></u>	<u><u>\$ 4,661,705</u></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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,291,984)	\$ 2,925,731
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	239,391	235,036
Realized and Unrealized (Gain) Loss on Investments	1,008,295	(1,856,116)
Contributions Restricted for Investment in Endowment	(214,240)	(21,335)
Change in Value of Contributions Receivable under Split Interest Agreements	-	(3,136)
Change in Value of Beneficial Interest in Perpetual Trust	319,930	(532,611)
Gain or Loss on Disposal of Fixed Assets	5,319	-
Changes in Current Assets and Liabilities:		
Accounts Receivable	88,104	(310,051)
Prepaid Expenses and Other	(140,820)	(37,640)
Accounts Payable and Other Accrued Liabilities	8,696	1,673
Deferred Revenue	(83,080)	(9,862)
Refundable Fees and Deposits	(14,000)	(51,625)
Other Accrued Expenses	(112,114)	41,317
Net Cash Provided (Used) by Operating Activities	(186,503)	381,381
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(686,306)	(133,923)
Proceeds from Sale of Investments	971,256	296,190
Distribution Received from Perpetual Trust	80,000	80,000
Receipt of Contributions Receivable Under Split Interest Agreement	-	45,224
Purchases of Property and Equipment	(166,446)	(81,251)
Net Cash Provided by Investing Activities	198,504	206,240
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Investment in Endowment	214,240	21,335
Proceeds of Borrowings from LSS, Pension Related	-	-
Debt Principal Payments to LSS	(332,806)	(271,041)
Change in Accounts Receivable from LSS Related to Operations	108,475	(302,266)
Change in Postretirement Benefit Obligation	(8,605)	(50,139)
Net Cash Used by Financing Activities	(18,696)	(602,111)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,695)	(14,490)
Cash and Cash Equivalents - Beginning of Year	106,967	121,457
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 100,272	\$ 106,967

See accompanying Notes to Financial Statements.

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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 DC 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 12, 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, 2022 AND 2021

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 recorded an allowance of \$23,910 and \$11,977 as of June 30, 2022 and 2021, respectively.

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, 2022 AND 2021

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.

Beneficial Interest in Perpetual Trust

The Organization is a 5% beneficiary 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, 2022, to reflect participants who have passed away.

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021 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, 2022 AND 2021**

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 86 and 622 in the years ended June 30, 2022 and 2021, 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 \$15,000 and \$17,000 for the years ended June 30, 2022 and 2021, 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, 2022 AND 2021**

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 (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.

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.

	2022	2021
Cash, Accounts Receivable, and Investments as of June 30	\$ 9,658,576	\$ 10,956,403
Less:		
Contractual or Donor Imposed Restrictions Making Financial Assets Unavailable for General Expenditure	(8,159,382)	(9,265,099)
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	\$ 1,499,194	\$ 1,691,304

Subsequent Events

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

CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable as of June 30 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Adoption	\$ 763,171	\$ 857,443	\$ 787,104
Due from Related Party	597,770	706,245	403,979
Other	314,625	296,524	35,250
Less: Allowance for Doubtful Accounts	<u>(23,910)</u>	<u>(11,977)</u>	-
Total Accounts Receivable	<u>\$ 1,651,656</u>	<u>\$ 1,848,235</u>	<u>\$ 1,226,333</u>

NOTE 3 PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land	\$ 573,040	\$ 573,040
Building and Leasehold Improvements	8,550,315	8,404,984
Furniture and Equipment	971,987	959,497
Information Systems Equipment and Software	243,972	243,972
Donated Artwork	<u>312,710</u>	<u>312,710</u>
Total	10,652,024	10,494,203
Less: Accumulated Depreciation	<u>(4,946,180)</u>	<u>(4,710,095)</u>
Net Property and Equipment	<u>\$ 5,705,844</u>	<u>\$ 5,784,108</u>

Depreciation expense was \$239,391 and \$235,056 for the years ended June 30, 2022 and 2021, respectively.

NOTE 4 INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Money Market	\$ 21,651	\$ 23,640
Equities	1,442,936	3,385,498
Fixed Income	3,208,313	1,998,764
Dynamic Asset Allocation Overlay	2,059,847	2,387,759
Alternative Investments	<u>1,173,901</u>	<u>1,205,540</u>
Total Investments	<u>\$ 7,906,648</u>	<u>\$ 9,001,201</u>

CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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>2022</u>	<u>2021</u>
Equities	\$ -	\$ 73,425
Fixed Income	-	125,267
Total	<u>\$ -</u>	<u>\$ 198,692</u>

NOTE 6 BENEFICIAL 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, 2022 and 2021 totaled \$1,710,048 and \$2,109,978, respectively. Distributions from the trust in 2022 and 2021 totaled \$80,000.

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.

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:

	<u>2022</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Fixed Income	\$ 3,208,313	\$ -	\$ -	\$ 3,208,313
Equities	1,442,936	-	-	1,442,936
Beneficial Interest in Perpetual Trust	-	-	1,710,048	1,710,048
Investments Measured at NAV	-	-	-	3,233,748
Total	<u>\$ 4,651,249</u>	<u>\$ -</u>	<u>\$ 1,710,048</u>	<u>\$ 9,595,045</u>

	<u>2021</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Fixed Income	\$ 2,124,031	\$ -	\$ -	\$ 2,124,031
Equities	3,458,923	-	-	3,458,923
Beneficial Interest in Perpetual Trust	-	-	2,109,978	2,109,978
Investments Measured at NAV	-	-	-	3,593,299
Total	<u>\$ 5,582,954</u>	<u>\$ -</u>	<u>\$ 2,109,978</u>	<u>\$ 11,286,231</u>

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	Beneficial Interest in Perpetual Trust	Split-Interest Agreement	Total
Balance - July 1, 2021	\$ 2,109,978	\$ -	\$ 2,109,978
Distributions	(80,000)	-	(80,000)
Change in Value of Interest	(319,930)	-	(319,930)
Balance - June 30, 2022	<u>\$ 1,710,048</u>	<u>\$ -</u>	<u>\$ 1,710,048</u>
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>

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.

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:

	2022 Net Asset Value	2021 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dynamic Asset Allocation Overlay	\$ 2,059,847	\$ 2,387,759	\$ -	Monthly	90 Days
Alternative Investments	1,173,901	1,205,540	-	Monthly	30 Days
Total	<u>\$ 3,233,748</u>	<u>\$ 3,593,299</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.

CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

Basis for Fair Value Measurements (Continued)

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.

NOTE 8 DEFERRED REVENUE

Deferred revenue as of June 30 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Deferred Revenue	\$ 23,276	\$ 106,356	\$ 116,218
International Program Liability	501,831	587,456	567,609
Refundable Fees and Deposits	154,500	168,500	220,125
Total Accounts Receivable	<u>\$ 679,607</u>	<u>\$ 862,312</u>	<u>\$ 903,952</u>

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specified Purpose:		
International Child Welfare	\$ 213,085	\$ 201,500
Other Program	53,887	76,851
Total	<u>266,972</u>	<u>278,351</u>
Subject to Passage of Time:		
Beneficial Interest in Charitable Trusts Held by Others	1,710,048	2,109,978
Assets Held under Split-Interest Agreements	-	198,962
Total	<u>1,710,048</u>	<u>2,308,940</u>
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	759,290	2,048,719
Original Donor-Restricted Gift Amount to be		
Maintained in Perpetuity:		
Campaign for Children	2,000,000	2,000,000
Endowment Funds	5,133,120	4,938,029
Total Endowments	<u>7,892,410</u>	<u>8,986,748</u>
Total Net Assets with Donor Restriction	<u>\$ 9,869,430</u>	<u>\$ 11,574,039</u>

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net Assets Released from Restrictions

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

	2022	2021
Purpose Restrictions	\$ 128,343	\$ 138,738
Appropriation of Endowment Earnings	311,000	290,000
Total	\$ 439,343	\$ 428,738

NOTE 10 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 GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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.

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 10 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

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, 2021	\$ -	\$ 8,986,748	\$ 8,986,748
Investment Return:			
Investment Income	-	250,486	250,486
Net Realized and Unrealized Loss	-	(1,248,064)	(1,248,064)
Total Investment Return	-	(997,578)	(997,578)
Contributions	-	214,240	214,240
Appropriation of Endowment Assets for Expenditure	-	(311,000)	(311,000)
Donor-Restricted Endowment Funds - June 30, 2022	\$ -	\$ 7,892,410	\$ 7,892,410
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

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 GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies at June 30, 2022 and 2021 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.

**CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 10 ENDOWMENTS (CONTINUED)

Spending Policy (Continued)

For the years ended June 30, 2022 and 2021, there was \$311,000 and \$290,000 for board-approved appropriations of endowment earnings, respectively. 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.

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 11 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, 2022 and 2021 was \$18,608 and \$31,376, respectively. The Organization also leases several copier machines under capital and operating leases expiring in various years through fiscal year 2025. Total equipment lease expense for the years ended June 30, 2022 and 2021 was \$4,017 and \$3,184, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 23,550
2024	10,992
2025	1,937
Total	<u>\$ 36,479</u>

CHILDREN'S HOME SOCIETY OF MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 12 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 \$19,734 and \$19,443 to the plan for the years ended June 30, 2022 and 2021, respectively.

NOTE 13 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, 2022 and 2021, the management fees were \$127,607 and \$126,096, 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, 2022 and 2021 was \$265,164.

In relation to the management fees and other cash flow, as of June 30, 2022 and 2021, LSS owed the Organization \$577,156 and \$691,917, respectively. In relation to the cash flows, as of June 30, 2022 and 2021, the Foundation owed the Organization \$20,152 and \$14,327, 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 five years, then variable based on the U.S. Treasury Constant five-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, 2022 and 2021 is \$804,475 and \$1,137,281, respectively, and is reflected as Long-Term Liability Due to LSS and Due to LSS, Current Portion in the statements of financial position.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.