Financial Statements
December 31, 2022 and 2021

Boys & Girls Clubs of the Sioux Empire

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Boys & Girls Clubs of the Sioux Empire

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Independent Auditor's Report

The Board of Directors
Boys & Girls Clubs of the Sioux Empire
Sioux Falls, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Boys & Girls Clubs of the Sioux Empire, which comprise the statements of financial position as of December 31, 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of Boys & Girls Clubs of the Sioux Empire as of December 31, 2022 and 2021, and the activities and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, Boys & Girls Clubs of the Sioux Empire has adopted the provisions of FASB Accounting Standards Codification Topic 842, Leases, as of January 1, 2022 using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the 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 Boys & Girls Clubs of the Sioux Empire's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Boys & Girls Clubs of the Sioux Empire'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 Boys & Girls Clubs of the Sioux Empire'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2023 on our consideration of Boys & Girls Clubs of the Sioux Empire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Boys & Girls Clubs of the Sioux Empire's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Boys & Girls Clubs of the Sioux Empire's internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
September 7, 2023

Boys & Girls Clubs of the Sioux Empire
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 1,988,850	$ 1,404,502
Cash and cash equivalents - restricted	147,525	167,090
Accounts receivable - fees, net of allowance for doubtful accounts of $1,937 as of December 31, 2022 and 2021	27,205	31,159
Promises to give	20,000	20,000
Grants receivable	37,021	114,779
Prepaid expenses	48,015	227,446
Inventory	8,825	6,508
Total current assets	2,277,441	1,971,484
Property and Equipment		
Land	316,258	316,167
Furniture and equipment	970,955	527,026
Buildings and improvements	1,301,040	1,191,267
Transportation equipment	350,814	303,364
	2,939,067	2,337,824
Less accumulated depreciation	(1,161,321)	(1,010,553)
Total property and equipment	1,777,746	1,327,271
Other Assets		
Beneficial interest in assets held by community foundation	151,286	177,662
Promises to give - net of current portion	-	20,000
Deposits	3,728	1,733
Operating lease right of use asset	7,027,309	-
Prepaid rent - net of current portion	-	1,236,967
Net other assets	7,182,323	1,436,362
Total assets	$ 11,237,510	$ 4,735,117

See Notes to Financial Statements

Boys & Girls Clubs of the Sioux Empire
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term liabilities	$ 47,194	$ 47,194
Accounts payable	94,680	130,502
Accrued expenses		
Payroll	212,276	175,650
Vacation	80,880	89,135
Other	12,130	36,970
Interest	4,760	4,760
Refundable advance	8,500	197,578
Current portion of operating lease liability	311,620	-
Current portion of finance lease liability	38,136	-
Total current liabilities	810,176	681,789
Long-Term Liabilities		
Notes payable, net of current portion	627,373	672,528
Operating lease liability, net of current portion	5,204,302	-
Finance lease liability, net of current portion	19,951	-
Total long-term liabilities	5,851,626	672,528
Total liabilities	6,661,802	1,354,317
Net Assets		
Without donor restrictions	4,276,897	3,036,048
With donor restrictions	298,811	344,752
Total net assets	4,575,708	3,380,800
Total liabilities and net assets	$ 11,237,510	$ 4,735,117

See Notes to Financial Statements

Boys & Girls Clubs of the Sioux Empire

Statements of Activities

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenue, Support and Gains						
Contributions	$ 260,530	$ 16,950	$ 277,480	$ 174,262	$ 99,446	$ 273,708
In-kind contributions	42,654	-	42,654	8,671	-	8,671
United Way allocation	628,545	-	628,545	436,692	-	436,692
Private grants and foundation	118,574	23,390	141,964	114,357	46,000	160,357
Federal and state contracts and grants	2,334,856	-	2,334,856	1,193,791	-	1,193,791
Program service fees	5,429,934	-	5,429,934	4,420,995	-	4,420,995
Gross special event revenue	217,498	-	217,498	338,104	-	338,104
Less cost of direct benefit to donors	(29,886)	-	(29,886)	(37,767)	-	(37,767)
Net special event revenue	187,612	-	187,612	300,337	-	300,337
Change in value of beneficial interest in assets held by community foundation	-	(26,376)	(26,376)	-	14,687	14,687
Loss on disposal of property	(360)	-	(360)	-	-	-
Other income	37,882	-	37,882	28,802	-	28,802
Net assets released from restrictions	59,905	(59,905)	-	31,533	(31,533)	-
Total revenue, support and gains	9,100,132	(45,941)	9,054,191	6,709,440	128,600	6,838,040
Expenses						
Program services	6,451,769	-	6,451,769	5,507,564	-	5,507,564
Supporting services						
Management and general	1,314,953	-	1,314,953	961,896	-	961,896
Fundraising	279,029	-	279,029	279,985	-	279,985
Total expenses	8,045,751	-	8,045,751	6,749,445	-	6,749,445
Change in Net Assets	1,054,381	(45,941)	1,008,440	(40,005)	128,600	88,595
Net Assets, Beginning of Year	3,036,048	344,752	3,380,800	3,076,053	216,152	3,292,205
Cumulative Adjustment for Change in Accounting Principle	186,468	-	186,468	-	-	-
Ne Assets, Beginning of Year as Restated	3,222,516	344,752	3,567,268	3,076,053	216,152	3,292,205
Net Assets, End of Year	$ 4,276,897	$ 298,811	$ 4,575,708	$ 3,036,048	$ 344,752	$ 3,380,800

See Notes to Financial Statements

Boys & Girls Clubs of the Sioux Empire

Statements of Functional Expenses

Years Ended December 31, 2022 and 2021

	2022					2021				
		Supporting Services		Cost of Direct			Supporting Services		Cost of Direct	
	Program Services	Management and General	Fund-raising	Benefit to Donors	Total Expenses	Program Services	Management and General	Fund-raising	Benefit to Donors	Total Expenses
Salaries and wages	$ 4,134,110	$ 882,378	$ 217,019	$ -	$ 5,233,507	$ 3,352,261	$ 621,564	$ 223,126	$ -	$ 4,196,951
Payroll taxes and benefits	579,671	121,345	16,602	-	717,618	471,932	101,065	17,069	-	590,066
Food and supplies	429,496	6,235	1,391	-	437,122	350,969	4,177	3,667	-	358,813
Rent	471,007	43,665	20,849	-	535,521	568,055	31,884	3,096	-	603,035
Repairs and maintenance	139,252	16,624	-	-	155,876	125,945	15,461	-	-	141,406
Insurance	108,341	16,520	-	-	124,861	114,500	15,286	-	-	129,786
Professional fees	46,864	88,695	13,570	-	149,129	3,181	97,547	-	-	100,728
Office expense	6,148	62,394	-	-	68,542	38,977	28,472	-	-	67,449
Local transportation	76,319	18,284	-	-	94,603	91,347	3,846	-	-	95,193
Credit card processing fees	98,031	-	3,617	-	101,648	75,006	-	3,065	-	78,071
Grant supplies	72,742	4,747	-	-	77,489	89,746	-	-	-	89,746
Utilities and real estate taxes	18,606	1,805	-	-	20,411	21,523	-	-	-	21,523
Information technology	31,630	11,463	1,395	-	44,488	28,718	7,489	1,920	-	38,127
Interest expense	33,446	-	-	-	33,446	32,311	3,033	-	-	35,344
Advertising and promotion	18,929	7,751	2,230	-	28,910	27,263	7,646	18,255	-	53,164
Miscellaneous	15,960	12,627	2,356	-	30,943	10,095	11,392	9,787	-	31,274
Conferences	10,379	19,209	-	-	29,588	3,760	9,413	-	-	13,173
Program activity fees	25,690	-	-	29,886	55,576	17,420	-	-	37,767	55,187
Total expenses before depreciation	6,316,621	1,313,742	279,029	29,886	7,939,278	5,423,009	958,275	279,985	37,767	6,699,036
Depreciation and amortization	135,148	1,211	-	-	136,359	84,555	3,621	-	-	88,176
	6,451,769	1,314,953	279,029	29,886	8,075,637	5,507,564	961,896	279,985	37,767	6,787,212
Less expenses included with revenues on the statement of activities										
Costs of direct benefits to donors	-	-	-	(29,886)	(29,886)	-	-	-	(37,767)	(37,767)
Total expenses	$ 6,451,769	$ 1,314,953	$ 279,029	$ -	$ 8,045,751	$ 5,507,564	$ 961,896	$ 279,985	$ -	$ 6,749,445

See Notes to Financial Statements

Boys & Girls Clubs of the Sioux Empire
Statements of Cash Flows
Years Ended December 31, 2022 **and 2021**

	2022	2021
Operating Activities		
Change in net assets	$ 1,008,440	$ 88,595
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	136,359	88,176
Loss on disposal of property and equipment	360	-
Change in beneficial interest in assets	26,376	(14,687)
(Increase) decrease in		
Accounts receivable	3,954	(6,296)
Grants receivable	77,758	24,450
Promises to give	20,000	20,000
Inventory, prepaid expenses and deposits	(3,523)	175,191
Accounts payable	(35,822)	58,308
Accrued expenses and refundable advance	(185,547)	187,954
Operating lease assets and liabilities	90,690	-
Net Cash from Operating Activities	1,139,045	621,691
Investing Activities		
Purchase of property	(509,149)	(113,730)
Proceeds from sale of property	2,500	-
Net Cash used for Investing Activities	(506,649)	(113,730)
Financing Activities		
Payments on notes payable	(45,155)	(44,011)
Principal payments on finance lease	(22,458)	-
Net Cash used for from Financing Activities	(67,613)	(44,011)
Change in Cash and Cash Equivalents	564,783	463,950
Cash and Cash Equivalents, Beginning	1,571,592	1,107,642
Cash and Cash Equivalents, Ending	$ 2,136,375	$ 1,571,592
Cash and cash equivalents	$ 1,988,850	$ 1,404,502
Cash and cash equivalents - restricted	147,525	167,090
	$ 2,136,375	$ 1,571,592
Supplemental Disclosure to Statements of Cash Flows		
Cash Paid During the Year for Interest	$ 33,446	$ 35,344

See Notes to Financial Statements

Note 1 - Principal Activity and Significant Accounting Policies

Principal Business Activity

The mission of Boys & Girls Clubs of the Sioux Empire (Organization) is to enrich and develop the lives of children, youth, and families in the Sioux Empire through comprehensive and educational services to meet evolving needs. Primary programs operated by the Organization include Infants and Toddlers, Early Childhood Education, After School Enrichment, Summer Enrichment, Extended Care, and Boys and Girls Clubs. These programs are operated from three locations in Sioux Falls.

The Organization receives fees for services and public support.

Cash, Cash Equivalents, Restricted Cash

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in natures, or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Accounts receivables consist primarily of amounts due from customer obligations. Customers are charged a $5 per week late fee for past due amounts. Payments on receivables are applied to the earliest unpaid bill. The carrying amount of the receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected. Individual accounts are sent to collections on a discretionary basis determined on a case-by-case analysis. Customers sent to collections are expelled from the daycare program. Allowance for uncollectable accounts receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. The accounts receivable balance as of January 1, 2021 was $24,863.

Grants receivable paid on a cost-reimbursement basis are recognized as a receivable once the services are provided, the costs are incurred, or the grant conditions have been met.

Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenues in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2022 and 2021, the allowance was $0.

Property and Equipment

Property and equipment additions over $1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 39 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improved or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual deposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2022 and 2021.

Beneficial Interest in Assets Held by Community Foundation

The Organization established an endowment fund that is perpetual in nature (the Fund) under the Sioux Falls Area Community Foundation (SFACF) and named the Organization as beneficiary. The Organization granted variance power to the SFACF, which allows the SFACF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if in the sole judgement of the SFACF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the SFACF for the Organization's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Inventory

Inventory is comprised of childcare food and is stated at the lower of cost or net realizable value determined using the first-in, first- out (FIFO) method.

Revenue and Revenue Recognition

The Organization recognizes revenue from childcare and registration fees during the year in which the related services are provided to the children and their families. The performance obligation of delivering childcare and registration services is simultaneously received and consumed by the children and their families; therefore, the revenue is recognized ratably over the course of the year. Payment for childcare is required monthly. Payment for registration fees is required at the time of registration. All amounts received prior to the commencement of the services, including registration fees, are deferred to the applicable period. The Organization records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Refundable advances related to special events were $8,500 and $34,378 as of December 31, 2022 and 2021, respectively.

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

Consequently, at December 31, 2022 and 2021, contributions of $834,000 and $193,000, respectively, have not been recognized in the accompanying statements of activities because the condition on which they depend has not yet been met. The full amount is dependent on the donor agency meeting certain fundraising goals.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. There were $0 and $163,200 of refundable advances as of December 31, 2022 and 2021, respectively. The Organization received cost-reimbursable grants of approximately $92,000 and $615,000 that have not been recognized at December 31, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred.

In-kind Contributions

In-kind contributions include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received (Note 10). The Organization does not sell donated gifts-in-kind. In addition to in-kind contributions, volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes and benefits which are allocated on the basis of estimates of time and effort. Information technology is allocated based on the number of computers. Food and supplies are allocated based on program attendance.

Income Taxes

The Organization is organized as South Dakota nonprofit corporation and has been recognized by the IRS as exempt from federal incomes taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifying for the charitable contribution deduction. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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

Estimates

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

Advertising

The Organization charges advertising and promotion costs to expense as incurred.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, no losses have been experienced in any of these accounts. The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022 and 2021, the Organization had approximately $1,450,000 and $856,000, respectively, in excess of FDIC-insured limits.

Credit risk associated with accounts receivable, promises to give and grants receivable are limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization's mission.

Adoption of Accounting Standards Codification Topic 842

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

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022, the beginning of the adoption period, cumulative effect adjustment to net assets of $186,468, reduction of prepaid rent of $1,415,609, an operating lease liability of $5,817,910, and an operating right-of-use asset of $7,233,519. The finance lease right-of-use asset and liabilities were recorded as of January 1, 2022 at the carrying value under prior guidance. The adoption of the new standard did not materially impact the Organization's statements of activities or statements of cash flows. See Note 6 for further disclosure of the Organization's lease contracts.

Adoption of Accounting Standards Update 2020-07

As of January 1, 2022, the Organization also adopted the provisions of Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis, because it provides increased and more transparent disclosure around contributed nonfinancial assets.

Subsequent Events

The Organization has evaluated subsequent events through September 7, 2023, the date the financial statements were available to be issued.

Note 2 - Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Cash and cash equivalents	$ 1,988,850	$ 1,404,502
Cash and cash equivalents - restricted	147,525	167,090
Accounts receivable	27,205	31,159
Promises to give	20,000	20,000
Grants receivable	37,021	114,779
	2,220,601	1,737,530
Less assets unavailable for general expenditures within one year due to donor restrictions	(147,525)	(167,090)
Financial assets available to meet cash needs for general expenditures within one year of December 31	$ 2,073,076	$ 1,570,440

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis, and financial assets on hand are adjusted as necessary.

Note 3 - Fair Value of Assets

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

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

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

Assets measured at fair value on a recurring basis are as follows as of December 31:

	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
December 31, 2022			
Beneficial interest in assets held by community foundation	$ -	$ -	$ 151,286
December 31, 2021			
Beneficial interest in assets held by community foundation	$ -	$ -	$ 177,662

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021:

Balance, December 31, 2020	$ 162,975
Total gains or losses Included in change in net assets, net of fees	14,687
Balance, December 31, 2021	177,662
Total gains or losses Included in change in net assets, net of fees	(26,376)
Balance, December 31, 2022	$ 151,286

There were no transfers into or out of Level 3.

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows as of December 31, 2022 and 2021:

	2022	2021
Due within one year	$ 20,000	$ 20,000
Due in one to five years	-	20,000
Total pledges receivable	$ 20,000	$ 40,000

At December 31, 2022 and 2021, one donor accounted for 100% of total promises to give.

Note 5 - Notes Payable

Notes payable consist of the following at December 31, 2022 and 2021:

	2022	2021
Mortgage loan payable to US Bank, NA; payable in monthly installments of $4,693, including interest at 4.60%; matures October 2024; secured by the Organization's real estate located at 5015 S. Crossing Place in Sioux Falls.	$ 654,567	$ 679,722
Note payable to First Premier Bank; payable in annual principal installments of $20,000 plus interest at 5.00%; matures January 2023; secured by the Organization's assets.	20,000	40,000
Subtotal notes payable	674,567	719,722
Less current portion	(47,194)	(47,194)
Net long-term notes payable	$ 627,373	$ 672,528

Principal payments in accordance with the debt terms years are as follows:

Years Ending December 31,	Amount
2023	$ 47,194
2024	627,373
	$ 674,567

Note 6 - Leases

The Organization leases office space, land and photocopiers for certain program locations for various terms under long-term, non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 2039 and provide for renewal options. The Organization included in the determination of the right of use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The Organization entered into an operating lease agreement for the location on the Empower Campus in Sioux Falls with portion of the lease being prepaid in 2020. The agreement includes an estimated 3% annual increase each subsequent year through maturity. The lease agreement includes options to extend for two additional five-year periods. In addition, the Organization is responsible for costs such as cleaning, maintenance, internet, telephone, and other communication systems.

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

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

The Organization has elected the practical expedient to not separate lease and non-lease components for office equipment leases.

Total right-of-use assets and lease liabilities at December 31, 2022 was as follows:

Lease Assets	Classification	
Operating right-of-use assets	Other assets	$ 7,027,309
Finance right-of-use assets	Property and equipment	112,539
Finance right-of-use assets	Accumulated Amortization	(53,915)
Total leased right-of-use assets		$ 7,085,933

Lease Liabilities	Classification	
Current		
Operating lease liabilities	Current liabilities	$ 311,620
Finance lease liabilities	Current liabilities	38,136
Noncurrent		
Operating lease liabilities	Long-term liabilities	5,204,302
Finance lease liabilities	Long-term liabilities	19,951
Total lease liabilities		$ 5,574,009

Total lease costs for the year ended December 31, 2022 was as follows:

Operating lease cost	$ 497,727
Finance lease cost	
Interest expense	252
Amortization of right-of-use assets	22,508

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 407,038
Operating cash flows from finance leases	252
Financing cash flows from finance leases	22,458

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

Weighted-average remaining lease term in years:	
Operating leases	16.58
Finance leases	2.69
Weighted-average discount rate:	
Operating leases	1.87%
Finance leases	0.36%

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of December 31, 2022:

	Operating	Finance
2023	$ 411,591	$ 22,709
2024	412,513	22,709
2025	413,448	10,712
2026	414,395	2,239
2027	370,067	-
Thereafter	4,392,360	-
Total lease payments	6,414,374	58,369
Less interest	(898,452)	(282)
Present value of lease liabilities	$ 5,515,922	$ 58,087

Future minimum payments determined under the guidance in Topic 840 are listed below as of December 31, 2021.

Lease obligation	$ 5,191,269
Less prepaid rent	(1,415,609)
Total minimum lease payments	$ 3,775,660

The future minimum lease payments as of December 31, 2021 are as follows:

Years Ending December 31,	Operating Leases
2022	$ 366,030
2023	366,030
2024	366,030
2025	366,030
2026	366,030
Thereafter	1,945,510
Total future minimum lease payments	$ 3,775,660

The balance of the prepaid lease is as follows as of December 31, 2021:

Prepaid lease	$ 1,694,388
Less: amortization to date	(278,779)
	$ 1,415,609

The balance of the prepayment is being amortized over the initial term of the lease agreement.

Note 7 - Retirement Plan

The Organization maintains a qualified cash or deferred compensation plan under Section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may elect to defer up to ten percent (10%) of their salary, subject to Internal Revenue Service limits. The Organization contributes a matching fifty percent (50%) of employee contributions to a maximum of 2.5%. In addition, the plan allows for the Organization to make discretionary contributions based on the participant's salary.

Employer contributions and administrative fees were $20,694 and $35,115 for the years ended December 31, 2022 and 2021, respectively.

Note 8 - Support from Governmental Units

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

Note 9 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2022	2021
Subject to expenditure for specified purpose		
Scholarship	$ 85,306	$ 92,211
Facility repairs	3,846	31,846
Future chefs	9,871	9,871
Playground	-	15,000
Wellness	-	5,000
Workforce development	19,830	-
Technology	16,951	-
Other	11,721	13,162
	147,525	167,090
Perpetual in nature, not subject to spending policy or appropriation		
Beneficial interest in assets held by community foundation	151,286	177,662
	$ 298,811	$ 344,752

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose		
Scholarship	$ 6,905	$ -
Facility repairs	28,000	1,154
Playground	15,000	-
Wellness	5,000	-
Workforce development	-	18,410
STEM (Science, Technology, Engineering and Mathematics)	-	9,246
Other	5,000	2,723
	$ 59,905	$ 31,533

Note 10 - In-kind Contributions

For the years ended December 31, 2022 and 2021, in-kind contributions recognized within the statements of activities included the following:

	2022	2021
Rent	$ 36,685	$ 4,831
Local transportation	2,129	-
Technology services	3,840	3,840
	$ 42,654	$ 8,671

Contributed rent is provided monthly at $403 per month for the initial lease term for one of their campus spaces. Additionally, the Organization was gifted one month's rent of $31,853 from the Empower campus to be used for the playground project. Contributed rent is used in program services and are recognized at fair value based on current rates for similar rented facilities.

Contributed technology services are provided for 16 lab computers at $320 per month. The services include managing servers, workstations, offsite data storage, and malware protection. Contributed technology services are used for program services and are recognized at fair value based on current rates for similar technology services.

During the year ended December 31, 2022, the Organization received a donation relating to the repairs and general maintenance for one of the Organization's vans. The fair value of the repairs was $2,129, which was valued using an invoice directly from the Ford body shop that performed the repairs. The Organization uses the van for program services.

All gifts-in-kind received during the years ended December 31, 2022 and 2021 were unrestricted.

Federal Awards Reports in Accordance with the Uniform Guidance
December 31, 2022

Boys & Girls Clubs of the Sioux Empire

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CPAs & BUSINESS ADVISORS

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

To the Board of Directors
Boys & Girls Clubs of the Sioux Empire
Sioux Falls, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Boys & Girls Clubs of the Sioux Empire, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2023.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as finding 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

Boys & Girls Clubs of the Sioux Empire's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Boys & Girls Clubs of the Sioux Empire's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Boys & Girls Clubs of the Sioux Empire's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Eide Bailly LLP

Sioux Falls, South Dakota
September 7, 2023

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Boys & Girls Clubs of the Sioux Empire
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Boys & Girls Clubs of the Sioux Empire's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Boys & Girls Clubs of the Sioux Empire's major federal programs for the year ended December 31, 2022. Boys & Girls Clubs of the Sioux Empire's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Boys & Girls Clubs of the Sioux Empire complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Boys & Girls Clubs of the Sioux Empire's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Boys & Girls Clubs of the Sioux Empire's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Boys & Girls Clubs of the Sioux Empire's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-004 to be significant deficiencies

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

Government Auditing Standards requires the auditor to perform limited procedures on Boys & Girls Clubs of the Sioux Empire's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Boys & Girls Clubs of the Sioux Empire's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Boys & Girls Clubs of the Sioux Empire as of and for the year ended December 31, 2022, and have issued our report thereon dated September 7, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
September 7, 2023

Boys & Girls Clubs of the Sioux Empire
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Education			
Passed through State of South Dakota			
Department of Education			
Twenty-First Century Community		21-80064-22;	
Learning Centers	84.287C	21-80064-23	$ 256,159
COVID-19 -Education Stabilization Fund	84.425C	2021G-798	352,927
Total Department of Education			609,086
Department of Agriculture			
Passed through State of South Dakota			
Department of Education			
Child Nutrition Cluster		NSLP-80064-22	
National School Lunch Program	10.555	NSLP-80064-21	199,739
Total Department of Agriculture			199,739
Department of Health and Human Services			
Passed through State of South Dakota			
Department of Social Services			
CCDF Cluster			
Affordable Care Act (ACA Abstinence			
Education Program	93.235	Unknown	2,868
Child Care and Development Block Grant	93.575	23-0843-701; 23-0843-702	8,000
COVID-19 - Child Care and			
Development Block Grant	93.575	CRRSA-21	171,480
Total Department of Health and Human Services			182,348
Department of Justice			
Passed through Boys and Girls Club of America		2021-49478;	
Juvenile Mentoring Program	16.726	2021-49479	35,598
Total Federal Financial Assistance			$ 1,026,771

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Boys & Girls Clubs of the Sioux Empire (the Organization) under programs of the federal government for the year ended December 31, 2022. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

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

Note 4 - Education Stabilization Fund

Expenditures presented under the program include $40,795 of costs incurred in the prior fiscal year. These costs were identified in the fiscal year and reimbursed under the federal award, therefore, included in the current year schedule of expenditures of federal awards.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

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

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing
COVID-19 -Education Stabilization Fund	84.425C
Twenty-First Century Community Learning Centers	84.287C

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2022-001 Preparation of Financial Statements and Schedule of Expenditures of Federal Awards and Material Audit Adjustments
Material Weakness

Criteria: A proper system of internal controls over financial reporting includes an adequate system for recording and processing entries to the financial statements, as well as the ability to prepare financial statements, the schedule of expenditures of federal awards (SEFA) and accompanying notes to the financial statements that are materially correct.

Condition: The Organization does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, we revised the SEFA to appropriately present expenditures by federal award. We also proposed material audit adjustments that would not have been identified as a result of the Organization's existing internal controls; and therefore, could have resulted in a material misstatement within the financial statements.

Cause: The Organization has limited staff. The Organization cannot justify incurring the costs necessary for preparing the financial statements and accompanying notes to the financial statements.

Effect: There is a reasonable possibility that the Organization would not be able to draft the financial statements, SEFA and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Organization be aware of this condition as it relates to the financial reporting process and the potential risks involved. Management and the Board should continually be aware of the financial accounting and reporting of the Organization and changes in accounting and reporting requirements.

Views of Responsible Officials: Management is in agreement.

2022-002 Segregation of Duties
Significant Deficiency

Criteria: In order to achieve an appropriate level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for the records should be performed by different employees or be maintained under dual control.

Condition: The Organization did not have an internal control system to allow for proper segregation of duties across all areas of the accounting function.

Cause: A number of accounting functions are performed by the financial account manager with no separate independent review or approval. Accounting functions include: preparation of statement of functional expenses and a number of monthly reconciliations of: bank account, beneficial interest in community foundation, accounts receivable, prepaid expenses, property and equipment, accrued payroll, debt and net assets.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect and correct misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that the Organization's current processes did not allow optimal internal control, it is important that the Organization is aware of this condition. Management should periodically assess the allocation of duties to determinate if maximum segregation of duties is achieved with the current office staff. Under this condition, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Organization.

Views of Responsible Officials: Management is in agreement.

Section III – Federal Award Findings and Questioned Costs

2022-003 **Department of Education and Passed through State of South Dakota Department of Education**

Federal Financial Assistance Listing #84.425C, 2021G-798, 03/13/2020 – 09/30/2022
COVID-19 Education Stabilization Fund - Governor's Emergency Education Relief (GEER) Fund

Federal Financial Assistance Listing #84.287C, 21-80064-22, 21-80064-23, 7/1/2021 – 6/30/2022, 7/1/2022 – 6/30/2023
Twenty-First Century Community Learning Centers Program

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

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

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

Condition: The amount of payroll taxes allocated to the GEER program exceeded the amount of payroll taxes actually paid for two of two employees tested. Additionally, one instance in which an employee's overtime hours was not charged to the Twenty First Century Program. Lastly, one instance in which one employee's bi-weekly wages were not charged to the Twenty First Century Program.

Cause: Tracking of grant-related payroll is a manual process which increases the likelihood of error.

Effect: Payroll and related costs were not properly reported by an insignificant amount.

Questioned Costs: None reported

Context: For the GEER program, a non-statistical sample of 6 employees were selected for testing of approximately 17 total employees whose time was charged to the federal award. The 6 employees selected for testing accounted for $53,784 of the $146,073 payroll costs charged to the federal award in the fiscal year. For the Twenty First Century Community Learning Centers Program, a non-statistical sample of 60 expenditures were selected for testing, including 56 payroll transactions and 4 nonpayroll transactions. The 56 payroll transactions accounted for $35,585 of $213,359 total payroll costs charged to the federal award.

Repeat Finding from Prior Year: Yes, prior year finding 2021-003

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

Views of Responsible Officials: Management is in agreement.

2022-004 **Department of Education and Passed through State of South Dakota Department of Education**

Federal Financial Assistance Listing / CFDA #84.425C, 2021G-798, 03/13/2020 – 09/30/2022
COVID-19 Education Stabilization Fund - Governor's Emergency Education Relief (GEER) Fund

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

Criteria: The Organization is required to have procedures in place to ensure that federal awards are expended only for allowable costs in accordance with Subpart E – Cost Principles of the Uniform Guidance. Allowable costs are supported by appropriate documentation and correctly charged as to account, amount, and period. 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: Four instances identified in which documentation could not be provided to support a formal review and approval of the expenditures prior to payment.

Cause: Documentation to support the review of expenditures prior to payment was not retained.

Effect: Without documentation to support of the review and approval of disbursements, demonstrating that costs comply with laws, regulations, and other compliance requirements is difficult.

Questioned Costs: None reported.

Context: A non-statistical sample of 12 non-payroll transactions were selected for testing out of approximately 60 total nonpayroll transactions, accounting for approximately $135,799 of $206,855 total nonpayroll costs charged to the federal award.

Repeat Finding from Prior Year: Yes, prior year finding 2021-004

Recommendation: We recommend that management retain documentation to support the review process was performed.

Views of Responsible Officials: Management is in agreement.