

# South Dakota Foundation for Medical Care

Financial Report  
December 31, 2019

## Contents

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Independent auditor's report	1-2
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Financial statements	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5-6
Statements of cash flows	7
Notes to financial statements	8-14

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Supplementary information	
Schedule of expenditures of federal awards and notes to schedule of expenditures of federal awards	15

---

Compliance	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	16-17
Report on compliance for the major federal program and report on internal control over compliance required by the Uniform Guidance	18-19

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Schedule of findings and questioned costs	20-21
Summary schedule of prior audit findings	22

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
South Dakota Foundation for Medical Care

### Report on the Financial Statements

We have audited the accompanying financial statements of South Dakota Foundation for Medical Care, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Dakota Foundation for Medical Care as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis 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 audits 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020, on our consideration of South Dakota Foundation for Medical Care'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 South Dakota Foundation for Medical Care'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 South Dakota Foundation for Medical Care's internal control over financial reporting and compliance.

*RSM US LLP*

Sioux Falls, South Dakota  
July 31, 2020

**South Dakota Foundation for Medical Care**

**Statements of Financial Position  
December 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 327,359	\$ 432,628
Certificates of deposit (Note 3)	53,698	104,287
Contract receivables, federal (Note 2)	252,822	388,287
Other receivables	57,662	62,190
Prepaid expenses	7,956	19,512
<b>Total current assets</b>	<b>699,497</b>	<b>1,006,904</b>
Investments and other long-term assets:		
Certificates of deposit (Note 3)	187,744	132,922
Contract receivables, federal (Note 2)	9,823	9,823
Federal contract holdback (Note 2)	21,415	45,982
Deferred compensation investments (Notes 5 and 7)	523,809	464,306
<b>Total investments and other long-term assets</b>	<b>742,791</b>	<b>653,033</b>
Property and equipment, at cost (Note 1)	29,136	147,373
Less accumulated depreciation	17,530	133,476
<b>Net property and equipment</b>	<b>11,606</b>	<b>13,897</b>
<b>Total assets</b>	<b>\$ 1,453,894</b>	<b>\$ 1,673,834</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 8,912	\$ 23,122
Current portion of pledge liability (Note 6)	9,436	9,066
Accrued expenses	252,731	345,650
<b>Total current liabilities</b>	<b>271,079</b>	<b>377,838</b>
Pledge liability, less current portion (Note 6)	-	9,436
Deferred compensation liability (Notes 5 and 7)	523,809	464,306
	<b>523,809</b>	<b>473,742</b>
Commitments and contingencies (Note 6)		
Net assets:		
Without donor restrictions	659,006	822,254
<b>Net assets</b>	<b>659,006</b>	<b>822,254</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,453,894</b>	<b>\$ 1,673,834</b>

See notes to financial statements.

**South Dakota Foundation for Medical Care**

**Statements of Activities**

**Years Ended December 31, 2019 and 2018**

	2019	2018
Operating activities:		
Revenues (Note 1):		
Centers for Medicare & Medicaid Services contracts and Great Plains Quality Innovation Network subcontract (Note 8)	\$ 1,939,768	\$ 2,535,278
South Dakota Department of Social Services Title XIX contract	471,000	471,000
South Dakota Department of Health Music & Memory contract	160,228	214,968
<b>Total revenues</b>	<b>2,570,996</b>	<b>3,221,246</b>
Expenses (Note 1):		
Program	2,081,158	2,643,638
Management and general	718,911	582,836
<b>Total expenses</b>	<b>2,800,069</b>	<b>3,226,474</b>
<b>Change in net assets from operations</b>	<b>(229,073)</b>	<b>(5,228)</b>
Nonoperating activities:		
Net realized and unrealized gains on deferred compensation investments (Note 5)	59,503	6,319
Interest income	6,322	4,622
<b>Total nonoperating activities</b>	<b>65,825</b>	<b>10,941</b>
<b>Change in net assets</b>	<b>(163,248)</b>	<b>5,713</b>
Net assets:		
Beginning of year	822,254	816,541
End of year	<b>\$ 659,006</b>	<b>\$ 822,254</b>

See notes to financial statements.

**South Dakota Foundation for Medical Care**

**Statement of Functional Expenses  
Year Ended December 31, 2019**

	Federal Contract	State Title XIX Contract	Music & Memory Contract	Total Program	Management and General	Total
Salaries	\$ 874,194	\$ 282,666	\$ 58,198	\$ 1,215,058	\$ 379,135	\$ 1,594,193
Group insurance	143,437	46,380	9,549	199,366	62,209	261,575
Retirement plan contributions	91,782	29,677	6,110	127,569	39,805	167,374
Payroll taxes	67,246	21,744	4,477	93,467	29,165	122,632
Meetings and travel	58,971	5,583	37,473	102,027	10,468	112,495
Rent	34,989	11,314	2,329	48,632	19,453	68,085
Printing and promotion	4,172	1,989	164	6,325	37,000	43,325
Consultants and advisors	207,370	7,850	-	215,220	10,552	225,772
Legal and audit	-	-	-	-	51,532	51,532
Insurance	14,674	4,744	977	20,395	8,158	28,553
Office supplies and storage	3,163	1,091	13,601	17,855	1,676	19,531
Telephone	7,544	1,533	316	9,393	2,055	11,448
Postage	475	922	10	1,407	1,325	2,732
Depreciation	1,177	381	79	1,637	654	2,291
Dues and subscriptions	8,900	13,360	547	22,807	3,567	26,374
Contributions	-	-	-	-	934	934
Equipment rent and repairs	-	-	-	-	1,720	1,720
Deferred compensation	-	-	-	-	59,503	59,503
	<u>\$ 1,518,094</u>	<u>\$ 429,234</u>	<u>\$ 133,830</u>	<u>\$ 2,081,158</u>	<u>\$ 718,911</u>	<u>\$ 2,800,069</u>

See notes to financial statements.

**South Dakota Foundation for Medical Care**

**Statement of Functional Expenses  
Year Ended December 31, 2018**

	Federal Contract	State Title XIX Contract	Music & Memory Contract	Total Program	Management and General	Total
Salaries	\$ 1,214,150	\$ 272,210	\$ 40,822	\$ 1,527,182	\$ 320,538	\$ 1,847,720
Group insurance	161,957	36,311	5,445	203,713	42,757	246,470
Retirement plan contributions	119,565	26,807	4,020	150,392	31,566	181,958
Payroll taxes	89,621	20,093	3,014	112,728	23,660	136,388
Meetings and travel	91,447	1,432	10,104	102,983	11,643	114,626
Rent	40,240	9,022	1,353	50,615	20,245	70,860
Printing and promotion	5,123	5,983	387	11,493	37,000	48,493
Consultants and advisors	257,247	11,635	-	268,882	12,231	281,113
Legal and audit	-	-	-	-	48,919	48,919
Insurance	13,937	3,125	469	17,531	7,012	24,543
Office supplies and storage	19,707	8,066	135,026	162,799	10,356	173,155
Telephone	6,286	857	213	7,356	994	8,350
Postage	1,016	1,154	12	2,182	1,797	3,979
Depreciation	1,178	264	39	1,481	593	2,074
Dues and subscriptions	11,086	12,870	345	24,301	2,715	27,016
Contributions	-	-	-	-	1,289	1,289
Equipment rent and repairs	-	-	-	-	3,202	3,202
Deferred compensation	-	-	-	-	6,319	6,319
	<u>\$ 2,032,560</u>	<u>\$ 409,829</u>	<u>\$ 201,249</u>	<u>\$ 2,643,638</u>	<u>\$ 582,836</u>	<u>\$ 3,226,474</u>

See notes to financial statements.

**South Dakota Foundation for Medical Care**

**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (163,248)	\$ 5,713
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,291	2,074
Net realized/unrealized gain on deferred compensation investments	(59,503)	(6,319)
Changes in assets and liabilities:		
Decrease in receivables and contract holdback	164,560	61,755
Decrease in prepaid expenses	11,556	6,371
Decrease in accounts payable	(14,210)	(814)
Decrease in pledge liability	(9,066)	(8,711)
Increase (decrease) in accrued expenses	(92,919)	155,729
Increase in deferred compensation liability	59,503	6,319
<b>Net cash provided by (used in) operating activities</b>	<b>(101,036)</b>	<b>222,117</b>
Cash flows from investing activities:		
Purchases of certificates of deposit, net	(4,233)	(3,380)
Purchase of property and equipment	-	(5,325)
<b>Net cash used in investing activities</b>	<b>(4,233)</b>	<b>(8,705)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(105,269)</b>	<b>213,412</b>
Cash and cash equivalents:		
Beginning of year	432,628	219,216
End of year	<u>\$ 327,359</u>	<u>\$ 432,628</u>

See notes to financial statements.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Nature of business:** South Dakota Foundation for Medical Care (the Foundation) is incorporated under the South Dakota Nonprofit Corporation Act to encourage and promote high-quality medical service to the residents of the state of South Dakota. Its primary activity is providing professional medical quality improvement services as a prime or subcontractor under federal and state contracts.

A summary of the Foundation's significant accounting policies is as follows:

**Basis of presentation:** The Foundation's financial statements have been prepared on the accrual basis of accounting. The Foundation classifies its net assets, its revenue and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Amounts for each of two classes of net assets (without donor restrictions and with donor restrictions) are displayed, when applicable, in the statements of financial position, and the amount of the change in each of the two classes of net assets is displayed in the statements of activities. The Foundation had no net assets with donor restrictions in 2019 or 2018.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. An estimate that is particularly susceptible to significant change in the near term is the allowance for doubtful receivables. Accounting estimates are inherently subjective, and as such, there is at least a reasonable possibility that the estimates could change by a material amount in the near term.

**Cash and cash equivalents:** The Foundation considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash and cash equivalents are maintained in accounts that may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Contract receivables:** Contract receivables are carried at original invoice amounts adjusted for final contract determinations made by the Centers for Medicare & Medicaid Services (CMS) for the Ninth and Tenth Scopes of Work and by Great Plains Quality Innovation Network (GPQIN) for the Eleventh and Twelfth Scopes of Work. Final determinations are made after annual and final contract federal audits have been completed. Contracts receivable are not considered to be past due, since CMS and GPQIN generally have full control over when amounts will be paid. An allowance for uncollectable receivables is established based on management's judgment. As of December 31, 2019 and 2018, no allowance for doubtful receivables has been recognized.

**Certificates of deposit:** Certificates of deposit are recorded at cost.

**Deferred compensation investments:** Deferred compensation investments, composed of pooled separate accounts and pooled annuity contracts, are carried at fair value as determined by the insurance and annuity company. The pooled separate accounts are generally based upon the quoted market prices of underlying securities. The pooled annuity contract is based upon the contract value of the underlying fixed-interest agreement.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Revenue recognition:** On January 1, 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified *FASB Accounting Standards Codification (ASC) Topic 606*. ASC 606 provides a five-step model for recognizing revenues from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Foundation has elected to adopt ASC 606 under the modified retrospective method and therefore apply only to those uncompleted contracts as of the date of initial application. Results for reporting periods beginning January 1, 2019, are presented under ASC 606, while prior-period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The adoption of the new revenue standard did not have a material impact on the Foundation's financial statements, and the timing and amount of its revenue recognition remained substantially unchanged under this new guidance.

On January 1, 2019, the Foundation also adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarified the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions.

Revenues from the South Dakota Department of Social Services contract are exchange transactions and are recognized under ASC 606. ASC 606 does not apply to other revenues, which have been recognized as contributions.

The Foundation assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. Revenue from exchange transactions is recognized over time, as the customer simultaneously receives and consumes the benefit of the services as they are performed. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration such as contract adjustments and withholdings. The amount of variable consideration included in the transaction price is constrained and is only included to the extent it is probable that significant reversal of cumulative revenue will not occur. Variable consideration is estimated using the expected-value method (i.e., probability-weighted approach) based on review of specific transactions, historical experience, and market and economic conditions. Historically, contract adjustments have not resulted in material changes to the Foundation's contracts.

Payment terms on invoiced amounts are typically within 30 days. As these payment terms are less than one year, the Foundation has elected the practical expedient to not consider the time value of money for its contracts. The primary purpose of the Foundation's invoicing term is to provide customers with simplified and predictable ways of purchasing the Foundation's services and not to receive financing from or provide financing to the customer.

The Foundation has elected the practical expedient to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. This evaluation is based on materiality at the contract level, and the Foundation has determined that the immaterial threshold for aggregate promised goods or services in a contract is 5% of the contract price.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Federal contracts:** The Foundation receives funding under federal contracts and subcontracts to provide Title XVIII quality improvement activities in the State of South Dakota. As these contracts are conditional contributions, revenue is recognized as the conditions are satisfied, which is typically as expenses are incurred or the services are performed. Cash reimbursements for equipment acquired with federal funds are recognized as revenue in the period the related expenditure is made. The Foundation recognizes contract withholdings as revenue and records such withholdings as a long-term receivable. Revenue as reported is subject to future adjustment based on annual and final contract federal audits. Adjustments are recognized in the period they become known.

The Foundation has contracted to provide services under cost reimbursement contracts with GPQIN (see Note 8). This included the Eleventh Scope of Work for the period from July 18, 2014 to October 17, 2019, in the estimated amount of \$11,779,642, and the Twelfth Scope of Work for the period from November 8, 2019 to November 7, 2024, in the estimated amount of \$1,374,888. Revenue recognized under the Eleventh Scope of Work was \$1,914,133 and \$2,535,278 for the years ended December 31, 2019 and 2018, respectively. Revenue recognized under the Twelfth Scope of Work for the year ended December 31, 2019, was \$25,635.

**State contracts:** The Foundation receives funding from the South Dakota Department of Social Services to provide professional peer review for Title XIX patients under a contract in which it is reimbursed at a fixed monthly cost, not to exceed \$471,000 for the periods of June 1, 2018 to May 31, 2019, and June 1, 2019 to May 31, 2020. This contract is cancelable with 30 days' notice by either party. As this contract is an exchange transaction, revenue is recognized over time as the services are performed.

In March 2018, the Foundation entered into an agreement with the South Dakota Department of Health to provide services under a cost reimbursement contract from March 2018 to February 2020. The agreement provides for payments up to \$402,500 and may be terminated by either party with 30 days' written notice. As this contract is a conditional contribution, revenue is recognized as the conditions are satisfied, which is typically as the services are performed.

**Property, equipment and depreciation:** Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. The estimated useful lives of property and equipment range from three to seven years. Property acquired with federal funds is considered to be owned by the Foundation while used in the program for which it was purchased or in other future authorized programs; however, the United States Government has a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to federal regulations. The net book value of property and equipment in which the United States government has a reversionary interest is \$0 as of December 31, 2019 and 2018. Certain property purchased with federal funds is restricted to be used only for federal programs. Unrestricted property acquired with federal funds may be used for the state contract and other Foundation purposes.

**Pledge liabilities:** Unconditional promises to contribute are recognized when pledged and are reported in the statements of financial position net of unamortized discount.

**Deferred compensation plan:** A former full-time employee and a current part-time employee of the Foundation have deferred compensation agreements with the Foundation for voluntary salary deferrals. Under the terms of the agreements, deferred compensation amounts are invested in certain assets selected by the participants. The deferred compensation liability is determined based upon the invested values. In addition to salary amounts deferred, deferred compensation expense is recognized equal to the amount of net realized and unrealized gains on these investments.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Federal income tax:** The Foundation is generally exempt from federal income taxes under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986; however, the Foundation is required to pay income tax on unrelated business income. No income tax liability or income tax expense was recorded on the Foundation's financial statements for each of the years ended December 31, 2019 and 2018.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require recognition in the financial statements.

The Foundation files income tax returns in the U.S. federal jurisdiction. The Foundation is no longer subject to income tax examinations by U.S. federal tax authorities for years prior to the year ended December 31, 2016. The Foundation has no tax examinations currently in process.

**Functional expenses:** Direct expenses are charged to each activity based upon their use. Indirect expenses are allocated to each functional activity based upon the pro rata level of direct labor or square footage. Equipment rent and repairs, contributions, legal and audit, and deferred compensation expenses are classified in management and general. No fundraising expenses have been incurred.

**Liquidity and availability:** Financial assets available to meet cash needs for general expenditures within one year comprise the following for the years ended December 31:

	2019	2018
Cash and cash equivalents	\$ 327,359	\$ 432,628
Certificates of deposit	53,698	104,287
Receivables	310,484	450,477
	<u>\$ 691,541</u>	<u>\$ 987,392</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statements of financial position date. The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$700,000). As of December 31, 2019, the Foundation had financial assets on hand of approximately 90 days. As part of its liquidity plan, excess cash is invested in certificates of deposit.

**Recent accounting pronouncements not yet adopted:** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which sets the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2021, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements; however, management anticipates that the adoption of this guidance will require the Foundation to record right-of-use assets and lease liabilities for its operating lease agreements.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The ASU is effective January 1, 2020. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

**Subsequent events:** Subsequent events were evaluated through July 31, 2020, the date these financial statements were available to be issued.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people domestically in the United States and abroad. Further, financial markets have recently experienced a significant decline attributed to COVID-19 concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the Foundation's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Foundation.

In June 2020, the Foundation received \$150,000 of Small Business Administration (SBA) loan funds as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The SBA loan requires monthly principal and interest payments of \$641 beginning in June 2021, includes interest at 2.75%, matures in 2051, and is secured by substantially all assets of the Foundation.

#### Note 2. Contract Receivables, Federal

The composition of contract receivables, federal, by the Scope of Work and year the services were performed is as follows as of December 31:

	2019	2018
Ninth Scope of Work (2008–2011)	\$ 17,507	\$ 17,507
Tenth Scope of Work (2011–2014)	13,731	13,731
Eleventh Scope of Work (2014–2018)	227,187	412,854
Twelfth Scope of Work (2019–2024)	25,635	-
Total	<u>284,060</u>	<u>444,092</u>
Less current portion	(252,822)	(388,287)
Less federal contract holdback	(21,415)	(45,982)
Long-term portion	<u>\$ 9,823</u>	<u>\$ 9,823</u>

Federal audits for services performed in 2008, 2014 and 2015 have been finalized with no questioned costs reported. Management has provided support to CMS for all amounts, and believes no other adjustments are necessary to reduce receivables to collectible amounts.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 3. Certificates of Deposit

The Foundation had certificates of deposit at a financial institution of \$241,442 and \$237,209 as of December 31, 2019 and 2018, respectively. The certificates bear interest rates ranging from 1.60% to 2.73% and have maturity dates ranging from May 2020 to May 2023, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

#### Note 4. Retirement Plan

The Foundation established a 401(k) plan effective January 1, 2018. This 401(k) plan covers employees who have attained age 21 and have worked at least 250 hours during three months of service. Employer contributions of 11.5% of participants' compensation are required, net of plan forfeitures. The retirement plan expense for the Foundation for the years ended December 31, 2019 and 2018, was \$167,374 and \$181,958, respectively.

#### Note 5. Deferred Compensation Agreements

A summary of the investments held in connection with the deferred compensation agreements follows as of December 31:

	2019	2018
Pooled separate accounts	\$ 438,351	\$ 381,347
Pooled annuity contracts	85,458	82,959
	<u>\$ 523,809</u>	<u>\$ 464,306</u>

Payment of the deferred compensation amounts is scheduled to occur no earlier than 61 days and no later than 90 days following separation of service. However, participants may elect to defer benefit payments until age 70.5. One employee retired in January 2014, and the other employee retired in December 2016 and was rehired on a part-time basis in November 2017. Due to the part-time employment, the current employee isn't eligible to make additional compensation deferrals. Both employees have elected to defer payments.

#### Note 6. Commitments

**Operating lease:** The Foundation leased office space under an operating lease that ended December 31, 2019. Total rental expense for the years ended December 31, 2019 and 2018, was \$68,085 and \$70,860, respectively. On December 31, 2019, the Foundation entered into a new lease for office space under an operating lease effective from January 1, 2020 through December 31, 2020, with monthly rental payments of \$302. Future minimum lease payments for the year ending December 31, 2020, are \$3,624.

**Contribution payable:** In June 2016, the Foundation pledged an unconditional contribution of \$50,000 to the University of South Dakota School of Medicine, payable in annual installments of \$10,000 beginning in June 2016. The pledge liability is reported in the statements of financial position net of an unamortized discount of \$564 and \$1,498 as of December 31, 2019 and 2018, respectively, using a 4% discount rate.

## South Dakota Foundation for Medical Care

### Notes to Financial Statements

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#### Note 7. Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. Accounting standards provide a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under accounting standards are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Inputs to the valuation methodology are unobservable, corroborated by little or no market data and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes by level, within the fair value hierarchy, the Foundation's assets and liabilities recognized at fair value on a recurring basis as of December 31:

	2019	2018	Level 1	Level 2	Level 3
Deferred compensation investments	\$ 523,809	\$ 464,306		x	
Deferred compensation liability	523,809	464,306		x	

#### Note 8. Centers for Medicare & Medicaid Services Contracts

The Foundation is a member of a teaming arrangement with another quality improvement organization in North Dakota to act as a subcontractor for GPQIN. GPQIN was awarded an Eleventh Scope of Work contract with CMS for the period from July 18, 2014 to July 17, 2019, and a Twelfth Scope of Work contract with CMS for the period from November 8, 2019 to November 7, 2024. The Foundation's subcontract with GPQIN comprised 75% and 79% of the Foundation's revenue for the years ended December 31, 2019 and 2018, respectively.

## **Supplementary Information**

**South Dakota Foundation for Medical Care**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2019**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Passed through the Great Plains Quality Innovation Network (GPQIN):				
Centers for Medicare & Medicaid Services (CMS)				
Medicare_Hospital Insurance	93.773	HHSM-500-2014-QIN0011	\$ -	\$ 1,939,768
Pass-Through the South Dakota Department of Health:				
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	N/A	-	700
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ -</b>	<b>\$ 1,940,468</b>

**Notes to Schedule of Expenditures of Federal Awards**

**Note A. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Foundation under programs of the federal government for the year ended December 31, 2019. The information in this Schedule 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 Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation.

**Note B. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The GPQIN contract includes cost reimbursements billed to CMS, plus the Foundation's monthly fixed fee, plus amounts earned but not yet billed.

**Note C. Indirect Cost Rate**

The Foundation has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

## **Compliance**



RSM US LLP

**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**

**Independent Auditor's Report**

Board of Directors  
South Dakota Foundation for Medical Care

We have audited, in accordance with the 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 South Dakota Foundation for Medical Care, which comprise the statement of financial position as of December 31, 2019, 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 July 31, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Dakota Foundation for Medical Care's internal control over financial reporting (internal control) to determine the 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 South Dakota Foundation for Medical Care's internal control. Accordingly, we do not express an opinion on the effectiveness of South Dakota Foundation for Medical Care's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether South Dakota Foundation for Medical Care'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 South Dakota Foundation for Medical Care's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Sioux Falls, South Dakota  
July 31, 2020

**Report on Compliance for the Major Federal Program and Report on  
Internal Control Over Compliance Required by the Uniform Guidance**

**Independent Auditor's Report**

Board of Directors  
South Dakota Foundation for Medical Care

**Report on Compliance for the Major Federal Program**

We have audited South Dakota Foundation for Medical Care's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on South Dakota Foundation for Medical Care's major federal program for the year ended December 31, 2019. South Dakota Foundation for Medical Care's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for South Dakota Foundation for Medical Care's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Dakota Foundation for Medical Care's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of South Dakota Foundation for Medical Care's compliance.

**Opinion on the Major Federal Program**

In our opinion, South Dakota Foundation for Medical Care complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

## **Report on Internal Control Over Compliance**

Management of South Dakota Foundation for Medical Care is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Dakota Foundation for Medical Care's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Dakota Foundation for Medical Care's internal control over compliance.

*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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*RSM US LLP*

Sioux Falls, South Dakota  
July 31, 2020

**South Dakota Foundation for Medical Care**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2019**

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Section I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
  - Material weakness(es) identified? No
  - Significant deficiency(ies) identified? None reported
3. Noncompliance material to financial statements noted? No

B. Federal Awards

1. Internal control over major programs:
  - Material weakness(es) identified? No
  - Significant deficiency(ies) identified? None reported
2. Type of auditor's report issued on compliance for the major federal program: Unmodified
  - Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? No

3. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.773	Medicare_Hospital Insurance
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

(Continued)

**South Dakota Foundation for Medical Care**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended December 31, 2019**

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Section II. FINANCIAL STATEMENT FINDINGS

None reported.

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

**South Dakota Foundation for Medical Care**

**Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2019**

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No matters were reported.

