

# **Sioux Falls Area Community Foundation, Inc.**

Consolidated Financial Report  
June 30, 2019

## Contents

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Independent auditor's report	1
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Financial statements	
Consolidated statements of financial position	2
Consolidated statements of activities	3
Consolidated statements of functional expenses	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6-19

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Independent auditor's report on the supplementary information	20
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Supplementary information	
Statements of activities—operating fund	21

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Sioux Falls Area Community Foundation, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Sioux Falls Area Community Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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. 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 the Sioux Falls Area Community Foundation, Inc. as of June 30, 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.

*RSM US LLP*

Sioux Falls, South Dakota  
September 26, 2019

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Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Financial Position  
June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 28,334,502	\$ 19,329,362
Interest and dividends receivable	181,659	143,712
Contributions receivable	1,954,670	80,270
Prepaid expenses and other assets	601,374	582,178
Beneficial interest in split-interest agreements	2,583,000	2,578,000
Investments:		
Certificates of deposit (Note 5)	9,006,651	8,659,097
Securities (Note 2)	130,561,542	112,159,587
Cash surrender value of life insurance (Note 10)	4,549,364	5,077,638
Property and equipment, net (Note 6)	1,529,479	1,492,541
	<u>179,302,241</u>	<u>150,102,385</u>
<b>Total assets</b>	<b>\$ 179,302,241</b>	<b>\$ 150,102,385</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 76,071	\$ 74,207
Grants payable	399,850	376,250
Charitable gift annuities payable (Note 11)	268,138	281,246
Assets held for others	33,919,695	24,696,841
	<u>34,663,754</u>	<u>25,428,544</u>
<b>Total liabilities</b>	<b>34,663,754</b>	<b>25,428,544</b>
Net assets (Notes 8 and 9):		
Without donor restrictions	133,677,582	114,121,387
With donor restrictions	10,960,905	10,552,454
	<u>144,638,487</u>	<u>124,673,841</u>
<b>Total net assets</b>	<b>144,638,487</b>	<b>124,673,841</b>
	<u>179,302,241</u>	<u>150,102,385</u>
<b>Total liabilities and net assets</b>	<b>\$ 179,302,241</b>	<b>\$ 150,102,385</b>

See notes to consolidated financial statements.

**Sioux Falls Area Community Foundation, Inc.**

**Consolidated Statements of Activities  
Years Ended June 30, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains (losses) and support:						
Contributions	\$ 40,699,371	\$ 50,000	\$ 40,749,371	\$ 23,887,545	\$ 120,000	\$ 24,007,545
Contributions designated for specific organizations	(9,264,393)	-	(9,264,393)	(2,677,701)	-	(2,677,701)
Investment return, net (Note 3)	8,174,669	470,140	8,644,809	8,559,008	276,195	8,835,203
Investment return designated for specific organizations, net	(1,242,748)	-	(1,242,748)	(1,733,267)	-	(1,733,267)
Change in value of split-interest agreements	-	82,645	82,645	-	(37,355)	(37,355)
Change in value of charitable gift annuities payable	(37,311)	-	(37,311)	(40,295)	-	(40,295)
Change in cash surrender value of life insurance	(2,091)	-	(2,091)	(131,035)	-	(131,035)
Net assets released from restrictions	194,334	(194,334)	-	800,608	(800,608)	-
<b>Total revenue, gains (losses) and support</b>	<b>38,521,831</b>	<b>408,451</b>	<b>38,930,282</b>	<b>28,664,863</b>	<b>(441,768)</b>	<b>28,223,095</b>
Distributions and expenses:						
Program and fund services:						
Grants	18,672,965	-	18,672,965	17,791,934	-	17,791,934
Grants remitted on behalf of specific organizations	(1,050,057)	-	(1,050,057)	(3,361,504)	-	(3,361,504)
Fund services	571,548	-	571,548	596,040	-	596,040
<b>Total program distributions and expenses</b>	<b>18,194,456</b>	<b>-</b>	<b>18,194,456</b>	<b>15,026,470</b>	<b>-</b>	<b>15,026,470</b>
Management and general	229,010	-	229,010	221,038	-	221,038
Asset development and fundraising	542,170	-	542,170	577,074	-	577,074
<b>Total distributions and expenses</b>	<b>18,965,636</b>	<b>-</b>	<b>18,965,636</b>	<b>15,824,582</b>	<b>-</b>	<b>15,824,582</b>
<b>Change in net assets</b>	<b>19,556,195</b>	<b>408,451</b>	<b>19,964,646</b>	<b>12,840,281</b>	<b>(441,768)</b>	<b>12,398,513</b>
Net assets, beginning of year	114,121,387	10,552,454	124,673,841	101,281,106	10,994,222	112,275,328
Net assets, end of year	\$ 133,677,582	\$ 10,960,905	\$ 144,638,487	\$ 114,121,387	\$ 10,552,454	\$ 124,673,841

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Functional Expenses  
Years Ended June 30, 2019 and 2018

	2019				2018			
	Program and Fund Services	Management and General	Asset Development and Fundraising	Total	Program and Fund Services	Management and General	Asset Development and Fundraising	Total
Grants, net	\$ 17,622,908	\$ -	\$ -	\$ 17,622,908	\$ 14,430,430	\$ -	\$ -	\$ 14,430,430
Personnel and benefits	373,042	177,640	337,514	888,196	337,906	168,954	337,906	844,766
Marketing and communications	12,457	-	112,112	124,569	14,563	-	131,074	145,637
Software, equipment and maintenance	32,758	15,599	29,638	77,995	37,794	18,897	37,794	94,485
Other fund expenses	71,009	-	-	71,009	140,565	-	-	140,565
Depreciation	22,200	10,572	20,086	52,858	23,080	11,539	23,080	57,699
Professional fees	8,476	10,510	14,916	33,902	7,532	7,532	13,907	28,971
Supplies and postage	9,207	4,385	8,330	21,922	11,106	4,881	11,779	27,766
Scholarship and grant-making	20,763	-	-	20,763	5,536	-	-	5,536
Occupancy	7,220	3,438	6,532	17,190	6,973	3,486	6,973	17,432
Staff and board development	7,082	3,373	6,408	16,863	5,128	2,565	5,128	12,821
Insurance	4,885	2,326	4,419	11,630	4,310	2,156	4,310	10,776
Organization dues	1,306	622	1,181	3,109	911	200	2,445	3,556
Miscellaneous	1,143	545	1,034	2,722	636	828	2,678	4,142
<b>Total expenses</b>	<b>\$ 18,194,456</b>	<b>\$ 229,010</b>	<b>\$ 542,170</b>	<b>\$ 18,965,636</b>	<b>\$ 15,026,470</b>	<b>\$ 221,038</b>	<b>\$ 577,074</b>	<b>\$ 15,824,582</b>

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 19,964,646	\$ 12,398,513
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,858	57,699
Net realized/unrealized gain on investments	(3,408,204)	(5,355,460)
Contributions designated for specific organizations	9,264,393	2,677,701
Payment received on charitable lead trust	77,645	77,645
Grants remitted on behalf of specific organizations	(1,050,057)	(3,361,504)
Change in charitable gift annuities payable	37,311	40,295
Change in value of split-interest agreements	(82,645)	37,355
Change in cash surrender value of life insurance	(60,515)	60,652
Change in value of assets held for others	1,008,518	1,099,424
Change in assets and liabilities:		
Liquidated investments receivable	-	119,775
Interest and dividends receivable	(37,947)	(41,100)
Contributions receivable	(1,874,400)	545,000
Prepaid expenses and other assets	(19,196)	(6,842)
Accounts payable and accrued liabilities	1,864	7,997
Grants payable	23,600	73,200
<b>Net cash provided by operating activities</b>	<b>23,897,871</b>	<b>8,430,350</b>
Cash flows from investing activities:		
Purchase of property and equipment	(89,796)	(37,099)
Premiums paid for life insurance policies	(169,246)	(213,823)
Proceeds from life insurance policies	772,770	284,206
Proceeds from sale and maturities of investment securities and certificates of deposit	22,386,865	37,785,390
Purchase of investment securities and certificates of deposit	(37,742,905)	(36,958,362)
<b>Net cash provided by (used in) investing activities</b>	<b>(14,842,312)</b>	<b>860,312</b>
Cash flows from financing activities:		
Payment of charitable gift annuities payable	(50,419)	(50,419)
<b>Net cash used in financing activities</b>	<b>(50,419)</b>	<b>(50,419)</b>
<b>Net increase in cash and cash equivalents</b>	<b>9,005,140</b>	<b>9,240,243</b>
Cash and cash equivalents:		
Beginning of year	19,329,362	10,089,119
End of year	<b>\$ 28,334,502</b>	<b>\$ 19,329,362</b>

See notes to consolidated financial statements.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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

**Basis of consolidation:** The consolidated financial statements include the accounts of the Sioux Falls Area Community Foundation, Inc. and the following limited liability company subsidiaries, EastBank Land Company II, LLC and EastBank Land IV, LLC, which are collectively referred to as the Foundation. These South Dakota subsidiaries are wholly owned single-member limited liability companies that are disregarded for federal income tax purposes. All material interorganization transactions have been eliminated.

**Nature of organization:** The Foundation was established to build and preserve endowment funds for the support of community needs. By virtue of this purpose and its sources of support, the Foundation is classified as a publicly supported charity and not a private foundation. Subsidiaries were established to own, manage, sell, lease, and otherwise hold title to and operate real estate for the benefit of the Foundation. The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

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

**Basis of presentation:** The financial statements are prepared in accordance with the requirements of *FASB Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities*. The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**Net assets without donor restrictions:** Net assets without donor restrictions are available for general use and not subject to donor restrictions. Accounting standards provide that if the governing body of an organization has the right to remove a donor restriction, known as variance power, the contributions should be classified as net assets without donor restrictions.

**Net assets with donor restrictions:** These net assets consist of donor-imposed restrictions that are temporary in nature and may or will be met, either by actions of the Foundation and/or the passage of time, or other donor-imposed restrictions that are perpetual in nature, where the donor stipulated that resources be maintained in perpetuity.

**Assets held for others:** Following the requirements of ASC 958, any fund established with the Foundation by a nonprofit organization for its own benefit with its own funds is classified as an agency fund. The Foundation is required to report any funds deemed to be agency funds as an asset with a corresponding liability due to the other organization. The Foundation also records a liability for assets held for other organizations when a specific beneficiary is named and variance power is not granted by the donor.

**Use of estimates:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 statements of financial position and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Estimates significant to the financial statements include the charitable gift annuities payable, beneficial interest in split-interest agreements, and investments stated at fair value.

**Revenue recognition:** Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions of split-interest agreements are recorded at their fair value when received or when notification has been received that the Foundation is an unconditional beneficiary of the agreement.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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

**Cash and cash equivalents:** For purposes of reporting cash flows, the Foundation considers highly liquid securities with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market accounts, commercial paper and treasury bills with original maturities of three months or less, some of which are held for investment. The Foundation maintains account balances that are in excess of federally insured limits of \$250,000. The Foundation has not experienced any losses in such accounts.

**Contributions receivable:** Contributions receivable consist of unconditional promises to give and are recognized as revenue in the period that the unconditional promise to give was received. Contributions expected to be received after one year are discounted using the present value of future cash flows. Contributions receivable are expected to be collected within one year as of June 30, 2019 and 2018. An allowance for uncollectible contributions is established based on management's judgment. As of June 30, 2019 and 2018, there was no allowance for uncollectible contributions.

**Prepaid expenses and other assets:** As of June 30, 2019 and 2018, prepaid expenses and other assets include \$565,000 in real estate contributed to the Foundation under an agency arrangement. Contributed real estate is carried at the fair value at the time of the receipt.

**Beneficial interest in split-interest agreements:** The Foundation is a named charitable beneficiary for a charitable lead annuity trust and a charitable remainder unitrust (split-interest agreements). These trusts are held and managed by independent third-party trustees. The assets held in the charitable remainder trust will remain in trust, paying income to the donors during their lifetime, and a percentage of the remainder assets will be transferred to the Foundation upon the donors' deaths. The assets held in the charitable lead trust will also remain in trust; however, the Foundation will receive an annual payment during the trust's term, and the remainder will be disbursed to named beneficiaries upon termination. Both charitable trusts have been recorded in the accompanying consolidated financial statements as net assets with donor restrictions and as support of the Foundation at the present value of their estimated future benefit to the Foundation. The Foundation did not recognize contribution revenue from these agreements during the years ended June 30, 2019 and 2018.

**Investment securities:** Investments in equity securities with readily determinable fair values and all debt securities are presented in the consolidated financial statements at fair value, with gains and losses included in the consolidated statements of activities. Fair values are based upon quoted market prices. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments or by discounted cash flow models. Alternative asset funds consist of fund investment partnerships and are stated at fair value, which has been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment fund managers, principally with respect to the net asset value of the respective investment partnerships. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Net gains on investments carried at fair value include realized and unrealized gains and losses. Investments in certificates of deposit are carried at cost.

**Cash surrender value of life insurance:** The Foundation is the owner and beneficiary of life insurance policies on the lives of certain donors. Premiums paid by donors are recorded as contributions received and life insurance premium expense.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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

**Property and equipment:** These assets are stated at cost if purchased, or estimated fair value at the date received if donated. Expenditures for the acquisition of property and equipment over \$1,000 are capitalized. Expenditures for maintenance and repairs are charged to expense in the year incurred. Depreciation is computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and building improvements	15-40
Land improvements	20
Furniture, equipment and software	3-5

**Grants payable:** Grants payable consist of amounts awarded, but not paid, to various individuals and nonprofit organizations. These grants are generally paid the following year.

**Donated services:** Donation of services is recorded as revenue and expense if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No donated professional services were recognized for the years ended June 30, 2019 and 2018.

**Marketing and communication costs:** Marketing and communication costs are expensed as incurred. Marketing and communication expense was \$124,569 and \$145,637 for the years ended June 30, 2019 and 2018, respectively.

**Income tax status:** The state of South Dakota has no income tax. The Foundation is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code; however, the Foundation is required to pay income tax on its unrelated business income primarily resulting from pass-through entities in which it has an ownership interest. The Foundation paid no income tax for the years ended June 30, 2019 and 2018.

The Foundation files Forms 990 and 990-T returns in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for tax years prior to the year ended June 30, 2015. The Foundation has no federal or state tax examinations currently in process.

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

**Reclassification:** Certain amounts in the 2018 consolidated statement of activities have been reclassified to conform with the 2019 presentation. Such reclassification had no effect on the change in net assets or total net assets.

**Functional expenses:** The costs of providing program services and other activities are summarized on a functional expense basis in the consolidated statements of activities. Direct expenses are charged to program and fund services, management and general, and asset development and fundraising based upon their use, while indirect costs are allocated among the activities based on estimated time spent in the activity.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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

**Recently adopted accounting pronouncement:** In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The new standard was effective for the Foundation on July 1, 2018. The Foundation has adopted this guidance and revised the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Recent accounting pronouncements not yet adopted:** In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The ASU defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU is effective for the Foundation for the year ending June 30, 2020. The Foundation is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The new standard is effective for the Foundation for the fiscal year beginning on July 1, 2020; however, early adoption is permitted. The Foundation does not anticipate that the adoption of this standard will have a material impact to its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Impacted organizations will now use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The new standard is effective for the Foundation for the fiscal year beginning on July 1, 2021; however, earlier adoption is permitted beginning with the fiscal years starting on July 1, 2019. The Foundation is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)*. The ASU provides guidance on how certain cash receipts and cash payments should be presented and classified in the statements of cash flows with the objective of reducing existing diversity in practice with respect to these items. The ASU requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The ASU is effective for the Foundation beginning on July 1, 2019. The Foundation is currently evaluating the impact the adoption of this guidance will have on its consolidated statements of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statements of cash flows. The ASU must be applied using a retrospective transition method with early adoption permitted. The ASU is effective for the Foundation beginning on July 1, 2019. The Foundation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred, which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction, which affects the timing of contribution revenue and expense recognition. The ASU is effective for the Foundation beginning on July 1, 2019. The Foundation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

**Subsequent events:** Subsequent events were evaluated through September 26, 2019, the date these consolidated financial statements were available to be issued.

#### Note 2. Investment in Securities

A summary of investment securities by major investment type is as follows:

	June 30, 2019		
	Unrealized		
	Gains		
	Cost	(Losses), Net	Fair Value
Government bonds, notes and funds	\$ 10,436,834	\$ 1,301,142	\$ 11,737,976
Nongovernmental bonds and bond funds	15,977,037	(33,241)	15,943,796
Balanced funds	10,615,093	833,202	11,448,295
Equity funds	63,048,682	20,094,464	83,143,146
Real asset funds	7,844,613	132,424	7,977,037
Preferred and S corporation stock	170,063	2,093	172,156
Alternative asset funds	56,559	82,577	139,136
	<u>\$ 108,148,881</u>	<u>\$ 22,412,661</u>	<u>\$ 130,561,542</u>

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

#### Note 2. Investment in Securities (Continued)

	June 30, 2018		
	Cost	Unrealized Gains (Losses), Net	Fair Value
Government bonds, notes and funds	\$ 10,793,779	\$ 175,758	\$ 10,969,537
Nongovernmental bonds and bond funds	12,543,149	(423,067)	12,120,082
Balanced funds	9,990,501	579,404	10,569,905
Equity funds	50,682,770	18,786,224	69,468,994
Real asset funds	8,205,016	466,815	8,671,831
Preferred and S corporation stock	157,578	(114)	157,464
Alternative asset funds	88,290	113,484	201,774
	<u>\$ 92,461,083</u>	<u>\$ 19,698,504</u>	<u>\$ 112,159,587</u>

Market volatility of marketable investment securities may substantially impact the value of such investments at any given time. It is possible that the value of the Foundation's investments has changed significantly since June 30, 2019.

#### Note 3. Investment Return

The investment return for the years ended June 30, 2019 and 2018, consist of the following components:

	2019	2018
Interest and dividends	\$ 5,344,273	\$ 3,596,688
Net realized and unrealized gain on investments	3,408,204	5,355,460
Investment fees	(107,668)	(116,945)
	<u>\$ 8,644,809</u>	<u>\$ 8,835,203</u>

#### Note 4. 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. The 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 the 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.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

#### Note 4. Fair Value Measurements (Continued)

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.

**Alternative asset funds:** As a practical expedient, investments in investment partnerships may be valued at the reported net asset value (NAV). Certain funds may provide the manager with the ability to suspend or postpone redemption (a "gate"), or a "lock-in period" upon initial subscription, within which the Foundation may not redeem without incurring a penalty. Investments valued using the NAV (or its equivalents) practical expedient have not been classified in the fair value hierarchy. As of June 30, 2019, all investment partnerships have been valued using the NAV practical expedient method.

The following tables summarize by level, within the fair value hierarchy, the Foundation's assets and liabilities that are valued at fair value on a recurring basis as of June 30, 2019 and 2018. In addition, investments reported at NAV are also included to permit reconciliation to the consolidated statements of financial position.

	June 30, 2019				
	Level 1	Level 2	Level 3	NAV	Total
Government bonds, notes and funds	\$ 11,317,700	\$ 420,276	\$ -	\$ -	\$ 11,737,976
Nongovernmental bonds and bond funds	15,943,796	-	-	-	15,943,796
Balanced funds	11,448,295	-	-	-	11,448,295
Equity funds	83,143,146	-	-	-	83,143,146
Real asset funds	7,977,037	-	-	-	7,977,037
Preferred and S corporation stock	167,156	5,000	-	-	172,156
Alternative asset funds (NAV)	-	-	-	139,136	139,136
Total investments	<u>\$ 129,997,130</u>	<u>\$ 425,276</u>	<u>\$ -</u>	<u>\$ 139,136</u>	<u>\$ 130,561,542</u>
Beneficial interest in split-interest agreements	\$ -	\$ 1,053,000	\$ 1,530,000	\$ -	\$ 2,583,000
Assets held for others liability	-	(33,919,695)	-	-	(33,919,695)
Charitable gift annuities payable	-	268,138	-	-	268,138
	June 30, 2018				
	Level 1	Level 2	Level 3	NAV	Total
Government bonds, notes and funds	\$ 10,468,283	\$ 501,254	\$ -	\$ -	\$ 10,969,537
Nongovernmental bonds and bond funds	12,120,082	-	-	-	12,120,082
Balanced funds	10,569,905	-	-	-	10,569,905
Equity funds	69,468,994	-	-	-	69,468,994
Real asset funds	8,671,831	-	-	-	8,671,831
Preferred and S corporation stock	152,464	5,000	-	-	157,464
Alternative asset funds (NAV)	-	-	-	201,774	201,774
Total investments	<u>\$ 111,451,559</u>	<u>\$ 506,254</u>	<u>\$ -</u>	<u>\$ 201,774</u>	<u>\$ 112,159,587</u>
Beneficial interest in split-interest agreements	\$ -	\$ 1,050,000	\$ 1,528,000	\$ -	\$ 2,578,000
Assets held for others liability	-	(24,696,841)	-	-	(24,696,841)
Charitable gift annuities payable	-	281,246	-	-	281,246

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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#### Note 4. Fair Value Measurements (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis for the beneficial interest in split-interest agreements for the years ended June 30, 2019 and 2018, are summarized as follows:

	2019	2018
Balance, beginning	\$ 1,528,000	\$ 1,519,000
Contributions	-	-
Net gains	2,000	9,000
Distributions	-	-
Balance, ending	<u>\$ 1,530,000</u>	<u>\$ 1,528,000</u>

The following table provides a summary of redemption restrictions of alternative asset funds as of June 30, 2019 and 2018:

Investment Strategy	Redemption Restrictions	Fair Value	
		2019	2018
Distressed debt	Limited to realizations of longer-term investments during the year, redeemable annually at December 31 with 120 days notice	\$ 139,136	\$ 201,774

The following methods and assumptions were used to estimate fair value of the items included on the above fair value hierarchy table:

- The fair value of the beneficial interest in split-interest agreements is calculated based on fair value of the trust assets or the stipulated payout, as adjusted by the actuarial assumptions and discounted at the IRS applicable federal rate.
- See Note 1 for the methodology used for determining fair values of investment securities and split-interest agreements.
- The liability for assets held for others is carried at the fair value of the underlying net investments.

#### Note 5. Certificates of Deposit

The Foundation had certificates of deposit at various financial institutions of \$9,006,651 and \$8,659,097 as of June 30, 2019 and 2018, respectively. The certificates bear interest rates ranging from 1.85% to 2.62% and have maturity dates ranging from July 2019 to May 2020, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the consolidated financial statements.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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#### Note 6. Property and Equipment

The following summarizes property and equipment as of June 30:

	2019	2018
Land and land improvements	\$ 304,129	\$ 304,129
Building and building improvements	1,432,014	1,357,628
Furniture, equipment and software	164,750	154,047
	<u>1,900,893</u>	<u>1,815,804</u>
Less accumulated depreciation	(371,414)	(323,263)
	<u>\$ 1,529,479</u>	<u>\$ 1,492,541</u>

#### Note 7. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating, grant-making and other contractual obligations while also striving to maximize the return on investment of its funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposit, and marketable debt and equity securities. Contributions receivable and interest and dividends receivable are expected to be received within one year, and portions of these balances are considered available for meeting current obligations. The portion of the beneficial interest in split-interest agreements and assets held for others due within one year is considered available for meeting current obligations.

Financial assets as of June 30, 2019:

Cash and cash equivalents	\$ 28,334,502
Interest and dividends receivable	181,659
Contributions receivable	1,954,670
Beneficial interest in split-interest agreements	2,583,000
Certificates of deposit	9,006,651
Securities	130,561,542
Cash surrender value of life insurance	4,549,364
Total financial assets as of June 30, 2019	<u>177,171,388</u>

Less amounts not available to be used within one year:

Cash surrender value of life insurance policies	4,549,364
Beneficial interest in split-interest agreements	2,505,355
Illiquid securities	69,136
Nonspendable portion of endowments and quasi-endowments	106,589,918
Nonspendable portion of assets held for others	30,493,276
Financial assets available to meet current obligations over the next 12 months	<u>\$ 32,964,339</u>

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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#### Note 8. Board-Designated Net Assets and Net Assets With Donor Restrictions

The board has designated operating financial assets for future capital expenditures. The cash flow needs for capital expenditures fluctuate significantly from year to year. By establishing and maintaining this reserve, funds should be available to purchase capital items when needed by the Foundation. Operating surpluses and annual depreciation expense can be used to fund this reserve. The capital expenditure reserve balance as of June 30, 2019 and 2018, was \$166,559 and \$101,124, respectively.

The board has also designated operating financial assets as a charitable gift annuities reserve, which include investment income. The Foundation intends to maintain this reserve at a minimum of 10% of charitable gift annuities payable. In addition, 10% of the residuum of new charitable gift annuities is added to the reserve. The charitable gift annuities reserve was \$140,446 and \$154,035 as of June 30, 2019 and 2018, respectively. In addition, the Foundation's endowment funds without donor restrictions are included in Note 9.

Net assets subject to donor restriction include contributions receivable, all assets related to split-interest agreements, and time- or use-restricted endowment funds. These net assets become net assets without donor restrictions when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or the passage of time.

The Foundation has two permanent endowment funds subject to donor restrictions as of June 30, 2019. The donors of these funds stipulated that the principal of the endowments is to be invested and not used for other purposes, and the Foundation agreed to these stipulations.

Net assets are subject to the following donor restrictions as of June 30:

	2019	2018
Endowment funds with donor restrictions (see Note 9)	\$ 8,327,905	\$ 7,914,454
Beneficial interest in split-interest agreements	2,583,000	2,578,000
Restricted for the operating fund	50,000	60,000
Total net assets subject to donor restriction	<u>\$ 10,960,905</u>	<u>\$ 10,552,454</u>

The following summarizes the net assets released from donor restrictions, as the purposes have been fulfilled as of June 30:

	2019	2018
Time restrictions	\$ 173,071	\$ 782,426
Donor-imposed purpose restrictions	21,263	18,182
	<u>\$ 194,334</u>	<u>\$ 800,608</u>

#### Note 9. Endowment Funds

The Foundation's Board of Directors, on the advice of legal counsel, has determined that the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the 2007 South Dakota legislature, does not apply to the majority of the Foundation's assets. The Foundation is governed subject to its articles of incorporation and bylaws and most contributions are subject to its terms. Certain contributions are received subject to other trust instruments or are subject to specific agreements with the Foundation. Until the gift matures, insurance and charitable gift annuities are classified as nonendowment funds.

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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#### Note 9. Endowment Funds (Continued)

Under the terms of its governing instruments, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund as the board in its sole discretion will determine. As a result of the ability to distribute corpus, all contributions designated for an endowment fund, not specifically restricted by the gift instrument, are classified as quasi-endowments. Quasi-endowments are classified as net assets without donor restrictions, but managed as endowment funds.

Contributions that are subject to other gift instruments and perpetual in nature are recorded as endowment funds subject to UPMIFA and classified as net assets with donor restrictions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to beneficiaries while seeking to mitigate the loss of purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The Foundation's investment objective is to achieve a real rate of return net of fees equal to or greater than the spending rate over the long-term. Actual returns may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Foundation's spending policy affects the amount of money annually distributed from various endowed funds for grant-making. The current spending policy includes a maximum annual distribution of up to 5% per year of a fund's asset value over a three-year moving average. This is consistent with the Foundation's objective to mitigate the loss of purchasing power due to inflation, fees and investment risk, as well as to provide additional real growth through new gifts and investment return.

The following summarizes net asset composition by type of fund as of June 30, 2019:

	2019		
	Without Restrictions	With Restrictions	Total
Endowment funds:			
Donor-designated endowment funds	\$ 28,321,297	\$ 211,254	\$ 28,532,551
Field of interest	6,673,709	8,016,366	14,690,075
Donor-advised	45,195,060	100,285	45,295,345
Scholarships	11,685,617	-	11,685,617
Undesignated	11,378,144	-	11,378,144
Total endowment funds	<u>\$ 103,253,827</u>	<u>\$ 8,327,905</u>	<u>\$ 111,581,732</u>

**Sioux Falls Area Community Foundation, Inc.**

**Notes to Consolidated Financial Statements**

**Note 9. Endowment Funds (Continued)**

The following summarizes net asset composition by type of fund as of June 30, 2018:

	2018		
	Without Restrictions	With Restrictions	Total
Endowment funds:			
Donor-designated endowment funds	\$ 28,874,865	\$ 208,047	\$ 29,082,912
Field of interest	6,511,149	7,585,890	14,097,039
Donor-advised	26,179,789	120,517	26,300,306
Scholarships	11,574,611	-	11,574,611
Undesignated	11,511,139	-	11,511,139
Total endowment funds	<u>\$ 84,651,553</u>	<u>\$ 7,914,454</u>	<u>\$ 92,566,007</u>

The following summarizes changes in the endowment net assets for the year ended June 30, 2019:

	2019		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 84,651,553</u>	<u>\$ 7,914,454</u>	<u>\$ 92,566,007</u>
Investment return	5,591,464	470,142	6,061,606
Contributions	17,196,505	-	17,196,505
Assets released from time restriction	56,691	(56,691)	-
Grants	(3,622,417)	-	(3,622,417)
Transfers in	208,641	-	208,641
Fees and other expenses	(828,610)	-	(828,610)
Change in endowed net assets	<u>18,602,274</u>	<u>413,451</u>	<u>19,015,725</u>
Endowment net assets, end of year	<u>\$ 103,253,827</u>	<u>\$ 8,327,905</u>	<u>\$ 111,581,732</u>

## Sioux Falls Area Community Foundation, Inc.

### Notes to Consolidated Financial Statements

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#### Note 9. Endowment Funds (Continued)

The following summarizes changes in the endowment net assets for the year ended June 30, 2018:

	2018		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ 79,111,229	\$ 8,241,222	\$ 87,352,451
Investment return	6,396,985	276,194	6,673,179
Contributions and transfers in	1,940,994	-	1,940,994
Assets released from time restriction	602,962	(602,962)	-
Grants	(2,247,698)	-	(2,247,698)
Transfers out	(306,473)	-	(306,473)
Fees and other expenses	(846,446)	-	(846,446)
Change in endowed net assets	5,540,324	(326,768)	5,213,556
Endowment net assets, end of year	\$ 84,651,553	\$ 7,914,454	\$ 92,566,007

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration, (i.e., underwater endowments). Losses on endowed net assets with donor restrictions are first used to reduce previous investment income and gains that have not been expended. Any additional losses are shown as a reduction in net assets with donor restrictions. As of June 30, 2019 and 2018, no such reduction in net assets was necessary.

#### Note 10. Cash Surrender Value of Life Insurance

The Foundation is the owner and beneficiary of life insurance policies that insure the lives of various donors. The face value of the policies was approximately \$38,153,000 and \$38,094,000 as of June 30, 2019 and 2018, respectively. The cash surrender value of the policies was \$4,549,364 and \$5,077,638 as of June 30, 2019 and 2018, respectively. Premiums of \$169,246 and \$213,823 during the years ended June 30, 2019 and 2018, respectively, were paid solely from contributions received from the insured donors.

#### Note 11. Charitable Gift Annuities Payable

Donors have established charitable gift annuities with the Foundation. At the time of each gift, assets are recorded at fair value, and a liability is recorded for the present value of future payments to be made to the designated beneficiaries. Charitable gift annuities provide for the payment of a fixed amount for a specified time to individuals designated by the donor in exchange for assets contributed to the Foundation. On an annual basis at June 30, the Foundation revalues the charitable gift annuities payable liabilities, using the discount rate determined at the time of the gift and new life expectancies of the donor beneficiaries, and records a change in the value of the charitable gift annuities payable in the consolidated statements of activities. The charitable gift annuities payment rate ranges from 5.50% to 8.40% of the assets recorded. At the end of the agreement, the remaining assets, if any, are to be available for the Foundation's use, subject to donor intentions. The present value of future payments estimated to be made under these agreements was \$268,138 and \$281,246 as of June 30, 2019 and 2018, respectively. The gift annuity funds consist of cash and securities totaling \$258,937 and \$272,354 as of June 30, 2019 and 2018, respectively.

**Sioux Falls Area Community Foundation, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 12. Retirement Plan**

The Foundation has a defined contribution retirement plan for those employees who meet the eligibility requirements set forth in the plan. The Foundation contributed 10.0% of eligible compensation for each participant for the years ended June 30, 2019 and 2018. Retirement plan expense was \$76,522 and \$58,685 for the years ended June 30, 2019 and 2018, respectively.



RSM US LLP

## Independent Auditor's Report on the Supplementary Information

To the Board of Directors  
Sioux Fall Area Community Foundation, Inc.

We have audited the consolidated financial statements of the Sioux Falls Area Community Foundation, Inc. as of and for the years ended June 30, 2019 and 2018, and have issued our report thereon dated September 26, 2019, which contains an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with 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 consolidated financial statements as a whole.

*RSM US LLP*

Sioux Falls, South Dakota  
September 26, 2019

Sioux Falls Area Community Foundation, Inc.

Statements of Activities—Operating Fund  
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue, gains and support:		
Contributions	\$ 108,825	\$ 68,628
Sioux Empire United Way contributions	100,000	120,000
Investment return	53,019	24,233
Management fees	1,264,555	1,127,906
Kresge endowment	39,761	39,113
Administrative endowments	21,709	20,534
<b>Total revenue, gains and support</b>	<b>1,587,869</b>	<b>1,400,414</b>
Distributions and expenses:		
Fund services	500,539	455,475
Management and general	229,010	221,038
Asset development and fundraising	542,170	577,074
<b>Total distributions and expenses</b>	<b>1,271,719</b>	<b>1,253,587</b>
Transfer to gift annuity fund from reserve	22,426	7,394
<b>Change in net assets</b>	<b>293,724</b>	<b>139,433</b>
Net assets, beginning of year	2,681,264	2,541,831
Net assets, end of year	<b>\$ 2,974,988</b>	<b>\$ 2,681,264</b>
Net assets consist of:		
Without donor restrictions and undesignated	\$ 2,617,983	\$ 2,366,105
Without donor restrictions and board-designated for capital expenditures	166,559	101,124
Without donor restrictions and board-designated for charitable gift annuities payable reserve	140,446	154,035
With donor restrictions	50,000	60,000
<b>Total net assets</b>	<b>\$ 2,974,988</b>	<b>\$ 2,681,264</b>

