

Sioux Falls Area Community Foundation, Inc.

Consolidated Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

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, 2020 and 2019, 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, 2020 and 2019, 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 24, 2020

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Cash and cash equivalents	\$ 34,440,806	\$ 28,334,502
Interest and dividends receivable	252,875	181,659
Contributions receivable	2,212,000	1,954,670
Prepaid expenses and other assets	780,287	601,374
Beneficial interest in split-interest agreements	2,696,000	2,583,000
Investments:		
Certificates of deposit (Note 5)	16,475,341	9,006,651
Securities (Note 2)	136,640,971	130,561,542
Cash surrender value of life insurance (Note 10)	4,125,772	4,549,364
Property and equipment, net (Note 6)	1,500,246	1,529,479
Total assets	\$ 199,124,298	\$ 179,302,241
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 78,989	\$ 76,071
Grants payable	564,030	399,850
Charitable gift annuities payable (Note 11)	238,757	268,138
Assets held for others	35,791,921	33,919,695
Total liabilities	36,673,697	34,663,754
Net assets (Notes 8 and 9):		
Without donor restrictions	150,910,387	133,677,582
With donor restrictions	11,540,214	10,960,905
Total net assets	162,450,601	144,638,487
Total liabilities and net assets	\$ 199,124,298	\$ 179,302,241

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains (losses) and support:						
Contributions	\$ 30,114,146	\$ 40,000	\$ 30,154,146	\$ 40,699,371	\$ 50,000	\$ 40,749,371
Contributions designated for specific organizations	(1,870,450)	-	(1,870,450)	(9,264,393)	-	(9,264,393)
Investment return, net (Note 3)	7,489,687	510,039	7,999,726	8,174,669	470,140	8,644,809
Investment return designated for specific organizations, net	(1,321,854)	-	(1,321,854)	(1,242,748)	-	(1,242,748)
Change in value of split-interest agreements	-	190,645	190,645	-	82,645	82,645
Change in value of charitable gift annuities payable	(13,645)	-	(13,645)	(37,311)	-	(37,311)
Death benefits received and change in cash surrender value of life insurance	1,322,609	-	1,322,609	(2,091)	-	(2,091)
Net assets released from restrictions	161,375	(161,375)	-	194,334	(194,334)	-
Total revenue, gains (losses) and support	35,881,868	579,309	36,461,177	38,521,831	408,451	38,930,282
Distributions and expenses:						
Program and fund services:						
Grants	18,424,590	-	18,424,590	18,672,965	-	18,672,965
Grants remitted on behalf of specific organizations	(1,124,108)	-	(1,124,108)	(1,050,057)	-	(1,050,057)
Fund services	492,820	-	492,820	571,548	-	571,548
Total program distributions and expenses	17,793,302	-	17,793,302	18,194,456	-	18,194,456
Management and general	272,403	-	272,403	229,010	-	229,010
Asset development and fundraising	583,358	-	583,358	542,170	-	542,170
Total distributions and expenses	18,649,063	-	18,649,063	18,965,636	-	18,965,636
Change in net assets	17,232,805	579,309	17,812,114	19,556,195	408,451	19,964,646
Net assets, beginning of year	133,677,582	10,960,905	144,638,487	114,121,387	10,552,454	124,673,841
Net assets, end of year	\$ 150,910,387	\$ 11,540,214	\$ 162,450,601	\$ 133,677,582	\$ 10,960,905	\$ 144,638,487

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Functional Expenses
Years Ended June 30, 2020 and 2019**

	2020				2019			
	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	\$ 17,300,482	\$ -	\$ -	\$ 17,300,482	\$ 17,622,908	\$ -	\$ -	\$ 17,622,908
Personnel and benefits	343,066	203,986	380,154	927,206	373,042	177,640	337,514	888,196
Software, equipment and maintenance	41,782	24,843	46,299	112,924	32,758	15,599	29,638	77,995
Marketing and communications	8,499	-	76,498	84,997	12,457	-	112,112	124,569
Depreciation	21,601	12,844	23,937	58,382	22,200	10,572	20,086	52,858
Professional fees	8,774	8,774	16,198	33,746	8,476	10,510	14,916	33,902
Other fund expenses	32,098	-	-	32,098	71,009	-	-	71,009
Staff and board development	9,870	5,869	10,938	26,677	7,082	3,373	6,408	16,863
Supplies and postage	7,717	4,018	8,787	20,522	9,207	4,385	8,330	21,922
Occupancy	6,398	3,806	7,090	17,294	7,220	3,438	6,532	17,190
Organization dues	2,160	4,143	7,350	13,653	1,306	622	1,181	3,109
Insurance	4,505	2,678	4,992	12,175	4,885	2,326	4,419	11,630
Scholarship and grant-making	5,520	-	-	5,520	20,763	-	-	20,763
Miscellaneous	830	1,442	1,115	3,387	1,143	545	1,034	2,722
Total expenses	\$ 17,793,302	\$ 272,403	\$ 583,358	\$ 18,649,063	\$ 18,194,456	\$ 229,010	\$ 542,170	\$ 18,965,636

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 17,812,114	\$ 19,964,646
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	58,382	52,858
Net realized/unrealized gain on investments	(3,769,816)	(3,408,204)
Contributions designated for specific organizations	1,870,450	9,264,393
Payment received on charitable lead trust	77,645	77,645
Grants remitted on behalf of specific organizations	(1,124,108)	(1,050,057)
Change in charitable gift annuities payable	13,645	37,311
Change in value of split-interest agreements	(190,645)	(82,645)
Death benefits received and change in cash surrender value of life insurance	(1,319,160)	(60,515)
Change in value of assets held for others	1,125,884	1,008,518
Change in assets and liabilities:		
Liquidated investments receivable	-	-
Interest and dividends receivable	(71,216)	(37,947)
Contributions receivable	(257,330)	(1,874,400)
Prepaid expenses and other assets	(378,913)	(19,196)
Accounts payable and accrued liabilities	2,918	1,864
Grants payable	164,180	23,600
Net cash provided by operating activities	14,014,030	23,897,871
Cash flows from investing activities:		
Purchase of property and equipment	(29,149)	(89,796)
Premiums paid for life insurance policies	(171,753)	(169,246)
Proceeds from life insurance policies	1,914,504	772,770
Proceeds from sale and maturities of investment securities and certificates of deposit	131,699,903	22,386,865
Purchase of investment securities and certificates of deposit	(141,278,205)	(37,742,905)
Net cash used in investing activities	(7,864,700)	(14,842,312)
Cash flows from financing activities:		
Payment of charitable gift annuities payable	(43,026)	(50,419)
Net cash used in financing activities	(43,026)	(50,419)
Net increase in cash and cash equivalents	6,106,304	9,005,140
Cash and cash equivalents:		
Beginning of year	28,334,502	19,329,362
End of year	\$ 34,440,806	\$ 28,334,502
Supplemental noncash investing and financing disclosures:		
Contributions of land included in prepaid expenses and other assets	\$ 200,000	\$ -

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Basis of consolidation: The consolidated financial statements (collectively, the 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, EastBank Land IV, LLC and EastBank Land V, 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. When the governing body of an organization has the right to remove a donor restriction, known as variance power, accounting standards provide that 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 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

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, 2020 and 2019. An allowance for uncollectible contributions is established based on management's judgment. As of June 30, 2020 and 2019, there was no allowance for uncollectible contributions.

Prepaid expenses and other assets: As of June 30, 2020 and 2019, prepaid expenses and other assets include \$765,000 and \$565,000, respectively, in real estate contributed to the Foundation under agency arrangements. 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 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, 2020 and 2019.

Investment securities: Investments in equity securities with readily determinable fair values and all debt securities are presented in the 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

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, 2020 and 2019.

Marketing and communication costs: Marketing and communication costs are expensed as incurred. Marketing and communication expense was \$84,997 and \$124,569 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

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, 2016. 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 financial statements.

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.

Recent accounting pronouncements adopted in the current year: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 adoption of this ASU in 2020 did not have a material impact on the Foundation's financial statements.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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

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 adoption of this ASU in 2020 did not have a material impact on the Foundation's 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 adoption of this ASU in 2020 did not have a material impact on the Foundation's financial statements.

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 accounting principles generally accepted in the United States of America (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. As the Foundation has elected the one-year deferral option available under ASU No. 2020-05, ASU No. 2014-09 will be effective for the Foundation for the year ending June 30, 2021. The Foundation is currently evaluating the impact of the pending adoption of the ASU on its 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, 2021; however, early adoption is permitted. The Foundation does not anticipate that the adoption of this standard will have a material impact to its financial statements.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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

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. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

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 for the Foundation for the fiscal year beginning on July 1, 2020. The Foundation is currently evaluating the impact of this new standard on its financial statements.

Subsequent events: Subsequent events were evaluated through September 24, 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 throughout the United States. 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 of 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 precisely estimate the overall operational and financial impact to the Foundation, but such an impact could have a material adverse effect on the financial condition of the Foundation.

Note 2. Investment in Securities

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

	June 30, 2020		
		Unrealized	
	Cost	Gains	Fair Value
		(Losses), Net	
Government bonds, notes and funds	\$ 8,124,818	\$ 2,583,605	\$ 10,708,423
Nongovernmental bonds and bond funds	15,553,404	229,628	15,783,032
Balanced funds	14,855,143	822,507	15,677,650
Equity funds	86,843,362	7,294,253	94,137,615
Real asset funds	56,399	748	57,147
Preferred and S corporation stock	182,710	3	182,713
Alternative asset funds	34,733	59,658	94,391
	<u>\$ 125,650,569</u>	<u>\$ 10,990,402</u>	<u>\$ 136,640,971</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 2. Investment in Securities (Continued)

	June 30, 2019		
	Cost	Unrealized Gains (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>

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, 2020.

Note 3. Investment Return

The investment return for the years ended June 30, 2020 and 2019, consists of the following components:

	2020	2019
Interest and dividends	\$ 4,355,899	\$ 5,344,273
Net realized and unrealized gain on investments	3,769,816	3,408,204
Investment fees	(125,989)	(107,668)
	<u>\$ 7,999,726</u>	<u>\$ 8,644,809</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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.

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, 2020, 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, 2020 and 2019. In addition, investments reported at NAV are also included to permit reconciliation to the consolidated statements of financial position.

	June 30, 2020				
	Level 1	Level 2	Level 3	NAV	Total
Government bonds, notes and funds	\$ 10,282,052	\$ 426,371	\$ -	\$ -	\$ 10,708,423
Nongovernmental bonds and bond funds	15,783,032	-	-	-	15,783,032
Balanced funds	15,677,650	-	-	-	15,677,650
Equity funds	94,137,615	-	-	-	94,137,615
Real asset funds	57,147	-	-	-	57,147
Preferred and S corporation stock	177,713	5,000	-	-	182,713
Alternative asset funds (NAV)	-	-	-	94,391	94,391
Total investments	<u>\$ 136,115,209</u>	<u>\$ 431,371</u>	<u>\$ -</u>	<u>\$ 94,391</u>	<u>\$ 136,640,971</u>
Beneficial interest in split-interest agreements	\$ -	\$ 1,185,000	\$ 1,511,000	\$ -	\$ 2,696,000
Assets held for others liability	-	(35,791,921)	-	-	(35,791,921)
Charitable gift annuities payable	-	(238,757)	-	-	(238,757)

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

	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)

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, 2020 and 2019, are summarized as follows:

	2020	2019
Balance, beginning	\$ 1,530,000	\$ 1,528,000
Net gains (losses)	(19,000)	2,000
Balance, ending	<u>\$ 1,511,000</u>	<u>\$ 1,530,000</u>

The following table provides a summary of redemption restrictions of alternative asset funds as of June 30, 2020 and 2019:

Investment Strategy	Redemption Restrictions	Fair Value	
		2020	2019
Distressed debt	Limited to realizations of longer-term investments during the year, redeemable annually at December 31 with 120 days notice	\$ 94,391	\$ 139,136

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

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 \$16,475,341 and \$9,006,651 as of June 30, 2020 and 2019, respectively. The certificates bear interest rates ranging from 0.15% to 2.00% and have maturity dates ranging from July 2020 to May 2022, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 6. Property and Equipment

The following summarizes property and equipment as of June 30:

	2020	2019
Land and land improvements	\$ 304,129	\$ 304,129
Building and building improvements	1,432,014	1,432,014
Furniture, equipment and software	164,431	164,750
	<u>1,900,574</u>	<u>1,900,893</u>
Less accumulated depreciation	(400,328)	(371,414)
	<u>\$ 1,500,246</u>	<u>\$ 1,529,479</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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.

	2020	2019
Financial assets as of June 30:		
Cash and cash equivalents	\$ 34,440,806	\$ 28,334,502
Interest and dividends receivable	252,875	181,659
Contributions receivable	2,212,000	1,954,670
Beneficial interest in split-interest agreements	2,696,000	2,583,000
Certificates of deposit	16,475,341	9,006,651
Securities	136,640,971	130,561,542
Cash surrender value of life insurance	4,125,772	4,549,364
Total financial assets as of June 30	<u>196,843,765</u>	<u>177,171,388</u>
Less amounts not available to be used within one year:		
Cash surrender value of life insurance policies	4,125,772	4,549,364
Beneficial interest in split-interest agreements	2,618,355	2,505,355
Illiquid securities	68,361	69,136
Nonspendable portion of endowments and quasi-endowments	110,598,352	106,589,918
Nonspendable portion of assets held for others	30,780,410	30,493,276
Amounts designated for charitable gift annuities reserve	85,967	113,207
Amounts designated for capital reserve expenditures	191,234	166,559
Financial assets available to meet current obligations over the next 12 months	<u>\$ 48,375,314</u>	<u>\$ 32,684,573</u>

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, 2020 and 2019, was \$191,234 and \$166,559, 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 \$113,207 and \$140,446 as of June 30, 2020 and 2019, respectively. In addition, the Foundation's endowment funds without donor restrictions are included in Note 9.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 8. Board-Designated Net Assets and Net Assets With Donor Restrictions (Continued)

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, 2020. 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:

	2020	2019
Endowment funds with donor restrictions (see Note 9)	\$ 8,804,214	\$ 8,327,905
Beneficial interest in split-interest agreements	2,696,000	2,583,000
Restricted for the operating fund	40,000	50,000
Total net assets subject to donor restriction	<u>\$ 11,540,214</u>	<u>\$ 10,960,905</u>

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

	2020	2019
Time restrictions	\$ 139,967	\$ 173,071
Donor-imposed purpose restrictions	21,408	21,263
	<u>\$ 161,375</u>	<u>\$ 194,334</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.

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.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 9. Endowment Funds (Continued)

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 tables summarize endowment funds by net asset composition and type of fund as of June 30:

	2020		
	Without Restrictions	With Restrictions	Total
Endowment funds:			
Donor-designated endowment funds	\$ 29,612,296	\$ 217,007	\$ 29,829,303
Field of interest	8,177,608	8,483,071	16,660,679
Donor-advised	46,607,781	104,136	46,711,917
Scholarships	12,010,822	-	12,010,822
Undesignated	11,503,180	-	11,503,180
Total endowment funds	<u>\$ 107,911,687</u>	<u>\$ 8,804,214</u>	<u>\$ 116,715,901</u>
	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 tables summarize the changes in endowment net assets for the years ended June 30:

	2020		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ 103,253,827	\$ 8,327,905	\$ 111,581,732
Investment return	5,442,565	510,039	5,952,604
Contributions	1,656,723	-	1,656,723
Assets released from time restriction	33,730	(33,730)	-
Grants	(2,386,360)	-	(2,386,360)
Transfers in	798,156	-	798,156
Fees and other expenses	(886,954)	-	(886,954)
Change in endowed net assets	4,657,860	476,309	5,134,169
Endowment net assets, end of year	\$ 107,911,687	\$ 8,804,214	\$ 116,715,901

	2019		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ 84,651,553	\$ 7,914,454	\$ 92,566,007
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	18,602,274	413,451	19,015,725
Endowment net assets, end of year	\$ 103,253,827	\$ 8,327,905	\$ 111,581,732

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, 2020 and 2019, no such reduction in net assets was necessary.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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 \$34,210,000 and \$38,153,000 as of June 30, 2020 and 2019, respectively. The cash surrender value of the policies was \$4,125,772 and \$4,549,364 as of June 30, 2020 and 2019, respectively. Premiums of \$171,752 and \$169,246 during the years ended June 30, 2020 and 2019, 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 \$238,757 and \$268,138 as of June 30, 2020 and 2019, respectively. The gift annuity funds consist of cash and securities totaling \$252,291 and \$258,937 as of June 30, 2020 and 2019, respectively.

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, 2020 and 2019. Retirement plan expense was \$68,303 and \$76,522 for the years ended June 30, 2020 and 2019, respectively.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

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, 2020 and 2019, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See Page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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 24, 2020

Sioux Falls Area Community Foundation, Inc.

Schedules of Activities—Operating Fund
Years Ended June 30, 2020 and 2019

	2020	2019
Revenue, gains and support:		
Contributions	\$ 65,493	\$ 108,825
Sioux Empire United Way contributions	79,900	100,000
Investment return	26,265	53,019
Management fees	1,382,739	1,264,555
Kresge endowment	40,823	39,761
Administrative endowments	22,404	21,709
Total revenue, gains and support	1,617,624	1,587,869
Distributions and expenses:		
Fund services	460,722	500,539
Management and general	272,403	229,010
Asset development and fundraising	583,358	542,170
Total distributions and expenses	1,316,483	1,271,719
Transfer to gift annuity fund from reserve	27,240	22,426
Change in net assets	273,901	293,724
Net assets, beginning of year	2,974,988	2,681,264
Net assets, end of year	\$ 3,248,889	\$ 2,974,988
Net assets consist of:		
Without donor restrictions and undesignated	\$ 2,904,448	\$ 2,617,983
Without donor restrictions and board-designated for capital expenditures	191,234	166,559
Without donor restrictions and board-designated for charitable gift annuities payable reserve	113,207	140,446
With donor restrictions	40,000	50,000
Total net assets	\$ 3,248,889	\$ 2,974,988

