

Sioux Falls Area Community Foundation, Inc.

Consolidated Financial Report
June 30, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
Sioux Falls Area Community Foundation, Inc.

Opinion

We have audited the consolidated financial statements of Sioux Falls Area Community Foundation, Inc. and subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Sioux Falls, South Dakota
September 29, 2022

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Financial Position
June 30, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 53,697,989	\$ 43,972,618
Liquidated investments receivable	1,168,286	-
Interest and dividends receivable	307,840	161,023
Contributions receivable	1,481,000	457,600
Prepaid expenses and other assets	779,936	818,599
Beneficial interest in split-interest agreements	2,857,000	3,066,000
Investments:		
Certificates of deposit (Note 5)	3,204,581	4,441,020
Securities (Note 2)	198,199,939	205,288,868
Cash surrender value of life insurance (Note 10)	4,051,773	4,407,538
Property and equipment, net (Note 6)	1,394,609	1,455,645
Total assets	\$ 267,142,953	\$ 264,068,911
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 100,476	\$ 83,810
Grants payable	372,250	440,134
Charitable gift annuities payable (Note 11)	214,518	230,627
Assets held for others	38,734,874	44,987,165
Total liabilities	39,422,118	45,741,736
Net assets (Notes 8 and 9):		
Without donor restrictions	216,017,961	205,228,684
With donor restrictions	11,702,874	13,098,491
Total net assets	227,720,835	218,327,175
Total liabilities and net assets	\$ 267,142,953	\$ 264,068,911

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Activities
Years Ended June 30, 2022 and 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains (losses) and support:						
Contributions	\$ 65,850,332	\$ -	\$ 65,850,332	\$ 50,208,995	\$ 30,000	\$ 50,238,995
Contributions designated for specific organizations	(3,435,360)	-	(3,435,360)	(3,715,188)	-	(3,715,188)
Investment return, net (Note 3)	(30,440,301)	(1,056,627)	(31,496,928)	40,280,294	1,254,651	41,534,945
Investment return designated for specific organizations, net	5,106,964	-	5,106,964	(8,634,272)	-	(8,634,272)
Change in value of split-interest agreements	-	(131,354)	(131,354)	-	447,645	447,645
Change in value of charitable gift annuities payable	(25,624)	-	(25,624)	(34,895)	-	(34,895)
Death benefits received and change in cash surrender value of life insurance, net of premiums	35,050	-	35,050	281,892	-	281,892
Net assets released from restrictions	207,636	(207,636)	-	174,019	(174,019)	-
Total revenue, gains (losses) and support	37,298,697	(1,395,617)	35,903,080	78,560,845	1,558,277	80,119,122
Distributions and expenses:						
Program and fund services:						
Grants	27,863,790	-	27,863,790	24,436,788	-	24,436,788
Grants remitted on behalf of specific organizations	(2,982,972)	-	(2,982,972)	(1,586,758)	-	(1,586,758)
Fund services	579,462	-	579,462	496,041	-	496,041
Total program distributions and expenses	25,460,280	-	25,460,280	23,346,071	-	23,346,071
Management and general	300,465	-	300,465	275,206	-	275,206
Asset development and fundraising	748,675	-	748,675	621,271	-	621,271
Total distributions and expenses	26,509,420	-	26,509,420	24,242,548	-	24,242,548
Change in net assets	10,789,277	(1,395,617)	9,393,660	54,318,297	1,558,277	55,876,574
Net assets, beginning of year	205,228,684	13,098,491	218,327,175	150,910,387	11,540,214	162,450,601
Net assets, end of year	\$ 216,017,961	\$ 11,702,874	\$ 227,720,835	\$ 205,228,684	\$ 13,098,491	\$ 218,327,175

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Functional Expenses
Years Ended June 30, 2022 and 2021

	2022				2021			
	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	\$ 24,880,818	\$ -	\$ -	\$ 24,880,818	\$ 22,850,030	\$ -	\$ -	\$ 22,850,030
Personnel and benefits	378,163	233,571	500,510	1,112,244	361,428	214,903	400,501	976,832
Marketing and communications	11,617	-	104,556	116,173	11,830	-	106,471	118,301
Software, equipment and maintenance	27,597	17,045	36,525	81,167	32,593	19,380	36,117	88,090
Other fund expenses	77,738	-	-	77,738	22,191	-	-	22,191
Depreciation	20,752	12,817	27,467	61,036	23,242	13,820	25,755	62,817
Staff and board development	18,189	11,234	24,073	53,496	5,508	3,275	6,103	14,886
Professional fees	12,157	12,157	22,442	46,756	9,293	9,293	17,156	35,742
Occupancy	6,755	4,171	8,940	19,866	6,869	4,085	7,613	18,567
Supplies and postage	6,381	3,215	8,299	17,895	7,633	3,935	8,706	20,274
Scholarship and grant-making	13,623	-	-	13,623	8,409	-	-	8,409
Insurance	4,290	2,650	5,679	12,619	4,884	2,904	5,412	13,200
Organization dues	1,303	1,616	8,864	11,783	1,148	1,773	6,059	8,980
Miscellaneous	897	1,989	1,320	4,206	1,013	1,838	1,378	4,229
Total expenses	\$ 25,460,280	\$ 300,465	\$ 748,675	\$ 26,509,420	\$ 23,346,071	\$ 275,206	\$ 621,271	\$ 24,242,548

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

**Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 9,393,660	\$ 55,876,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	61,036	62,817
Net realized/unrealized gain on investments	37,451,235	(37,661,118)
Contributions designated for specific organizations	3,435,360	3,715,188
Payment received on charitable lead trust	77,646	77,645
Grants remitted on behalf of specific organizations	(2,982,972)	(1,586,758)
Change in charitable gift annuities payable	25,623	34,896
Change in value of split-interest agreements	131,354	(447,645)
Death benefits received and change in cash surrender value of life insurance	154,687	(95,635)
Change in value of assets held for others	(6,704,679)	7,066,814
Change in assets and liabilities:		
Liquidated investments receivable	(1,168,286)	-
Interest and dividends receivable	(146,817)	91,852
Contributions receivable	(1,023,400)	1,754,400
Prepaid expenses and other assets	38,663	(38,312)
Accounts payable and accrued liabilities	16,666	4,821
Grants payable	(67,884)	(123,896)
Net cash provided by operating activities	38,691,892	28,731,643
Cash flows from investing activities:		
Purchase of property and equipment	-	(18,216)
Premiums paid for life insurance policies	(189,736)	(186,257)
Proceeds from life insurance policies	279,106	31,088
Proceeds from sale and maturities of investment securities and certificates of deposit	30,942,212	48,794,911
Purchase of investment securities and certificates of deposit	(59,956,371)	(67,778,331)
Net cash used in investing activities	(28,924,789)	(19,156,805)
Cash flows from financing activities:		
Payment of charitable gift annuities payable	(41,732)	(43,026)
Net cash used in financing activities	(41,732)	(43,026)
Net increase in cash and cash equivalents	9,725,371	9,531,812
Cash and cash equivalents:		
Beginning of year	43,972,618	34,440,806
End of year	\$ 53,697,989	\$ 43,972,618

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 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. An estimate significant to the financial statements is the fair value of investments.

Revenue recognition: Contributions are recognized as revenue when they are received or unconditionally pledged. If contributions are received by the Foundation that have both a right of return and barriers, these are conditional and recognized as revenue as the conditions are met. 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.

Liquidated investments receivable: Liquidated investments receivable relate to investments that have been sold prior to year-end for which the proceeds had not been received as of year-end.

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, 2022 and 2021. An allowance for uncollectible contributions is established based on management's judgment. As of June 30, 2022 and 2021, there was no allowance for uncollectible contributions.

Prepaid expenses and other assets: As of June 30, 2022 and 2021, prepaid expenses and other assets include \$765,000 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, 2022 and 2021.

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 net asset value (NAV), 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 services were recognized for the years ended June 30, 2022 and 2021.

Marketing and communication costs: Marketing and communication costs are expensed as incurred. Marketing and communication expense was \$116,173 and \$118,301 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

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 beyond three years. 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.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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

Uncertainties: 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 variation 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.

Recent accounting pronouncements not yet adopted: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. 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, 2022. The Foundation does not anticipate that the adoption of this standard will have a material impact to its 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, 2023. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The ASU also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Foundation beginning on July 1, 2022. The Foundation is currently evaluating the impact of the adoption of this standard on its financial statements.

Subsequent events: Subsequent events were evaluated through September 29, 2022, the date these financial statements were available to be issued.

Sioux Falls Area Community Foundation, Inc.**Notes to Consolidated Financial Statements****Note 2. Investment in Securities**

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

	June 30, 2022		
	Cost	Unrealized Gains (Losses), Net	Fair Value
Government bonds, notes and funds	\$ 24,528,060	\$ (766,071)	\$ 23,761,989
Nongovernmental bonds and bond funds	34,073,709	(3,116,279)	30,957,430
Balanced funds	18,146,331	(927,064)	17,219,267
Equity funds	119,153,020	5,947,518	125,100,538
Real asset funds	56,399	18,473	74,872
Preferred and S corporation stock	1,193,222	(156,860)	1,036,362
Alternative asset funds	18,625	30,856	49,481
	<u>\$ 197,169,366</u>	<u>\$ 1,030,573</u>	<u>\$ 198,199,939</u>

	June 30, 2021		
	Cost	Unrealized Gains (Losses), Net	Fair Value
Government bonds, notes and funds	\$ 10,970,438	\$ 2,307,076	\$ 13,277,514
Nongovernmental bonds and bond funds	34,861,333	149,439	35,010,772
Balanced funds	15,182,644	1,889,385	17,072,029
Equity funds	101,105,126	38,540,142	139,645,268
Real asset funds	56,399	23,734	80,133
Preferred and S corporation stock	137,859	1,723	139,582
Alternative asset funds	25,262	38,308	63,570
	<u>\$ 162,339,061</u>	<u>\$ 42,949,807</u>	<u>\$ 205,288,868</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, 2022.

Note 3. Investment Return

The investment return for the years ended June 30, 2022 and 2021, consists of the following components:

	2022	2021
Interest and dividends	\$ 6,176,870	\$ 4,022,761
Net realized and unrealized gain (loss) on investments	(37,451,235)	37,661,118
Investment fees	(222,563)	(148,934)
	<u>\$ (31,496,928)</u>	<u>\$ 41,534,945</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 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, 2022 and 2021, 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, 2022 and 2021. In addition, investments reported at NAV are also included to permit reconciliation to the consolidated statements of financial position.

	June 30, 2022				
	Level 1	Level 2	Level 3	NAV	Total
Government bonds, notes and funds	\$ 22,720,010	\$ 1,041,979	\$ -	\$ -	\$ 23,761,989
Nongovernmental bonds and bond funds	30,957,430	-	-	-	30,957,430
Balanced funds	17,219,267	-	-	-	17,219,267
Equity funds	125,100,538	-	-	-	125,100,538
Real asset funds	74,872	-	-	-	74,872
Preferred and S corporation stock	1,031,362	5,000	-	-	1,036,362
Alternative asset funds (NAV)	-	-	-	49,481	49,481
Total investments	<u>\$ 197,103,479</u>	<u>\$ 1,046,979</u>	<u>\$ -</u>	<u>\$ 49,481</u>	<u>\$ 198,199,939</u>
Beneficial interest in split-interest agreements	\$ -	\$ 857,000	\$ 2,000,000	\$ -	\$ 2,857,000
Assets held for others liability	-	(38,734,874)	-	-	(38,734,874)
Charitable gift annuities payable	-	-	(214,518)	-	(214,518)

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

	June 30, 2021				
	Level 1	Level 2	Level 3	NAV	Total
Government bonds, notes and funds	\$ 12,878,988	\$ 398,526	\$ -	\$ -	\$ 13,277,514
Nongovernmental bonds and bond funds	35,010,772	-	-	-	35,010,772
Balanced funds	17,072,029	-	-	-	17,072,029
Equity funds	139,645,268	-	-	-	139,645,268
Real asset funds	80,133	-	-	-	80,133
Preferred and S corporation stock	134,582	5,000	-	-	139,582
Alternative asset funds (NAV)	-	-	-	63,570	63,570
Total investments	<u>\$ 204,821,772</u>	<u>\$ 403,526</u>	<u>\$ -</u>	<u>\$ 63,570</u>	<u>\$ 205,288,868</u>
Beneficial interest in split-interest agreements	\$ -	\$ 1,066,000	\$ 2,000,000	\$ -	\$ 3,066,000
Assets held for others liability	-	(44,987,165)	-	-	(44,987,165)
Charitable gift annuities payable	-	-	(230,627)	-	(230,627)

The following table provides a summary of redemption restrictions of alternative asset funds as of June 30, 2022 and 2021:

Investment Strategy	Redemption Restrictions	Fair Value	
		2022	2021
Distressed debt	Limited to realizations of longer-term investments during the year, redeemable annually at December 31 with 120 days' notice	\$ 49,481	\$ 63,570

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 Internal Revenue Service 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 \$3,204,581 and \$4,441,020 as of June 30, 2022 and 2021, respectively. The certificates bear interest rates ranging from 0.15% to 0.70% and have maturity dates ranging from August 2022 to September 2024, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 6. Property and Equipment

The following summarizes property and equipment as of June 30:

	2022	2021
Land and land improvements	\$ 304,129	\$ 304,129
Building and building improvements	1,436,168	1,436,168
Furniture, equipment and software	166,434	166,434
	<u>1,906,731</u>	<u>1,906,731</u>
Less accumulated depreciation	(512,122)	(451,086)
	<u>\$ 1,394,609</u>	<u>\$ 1,455,645</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.

	2022	2021
Financial assets as of June 30:		
Cash and cash equivalents	\$ 53,697,989	\$ 43,972,618
Liquidated investments receivable	1,168,286	-
Interest and dividends receivable	307,840	161,023
Other assets	-	35,035
Contributions receivable	1,481,000	457,600
Beneficial interest in split-interest agreements	2,857,000	3,066,000
Certificates of deposit	3,204,581	4,441,020
Securities	198,199,939	205,288,868
Cash surrender value of life insurance	4,051,773	4,407,538
Total financial assets as of June 30	<u>264,968,408</u>	<u>261,829,702</u>
Less amounts not available to be used within one year:		
Cash surrender value of life insurance policies	4,051,773	4,407,538
Beneficial interest in split-interest agreements	779,355	988,355
Illiquid securities	38,481	47,570
Nonspendable portion of endowments and quasi-endowments	139,974,968	163,086,451
Nonspendable portion of assets held for others	32,520,458	38,486,880
Amounts designated for charitable gift annuities reserve	31,487	58,727
Amounts designated for capital reserve expenditures	230,127	232,143
Financial assets available to meet general expenditures within one year	<u>\$ 87,341,759</u>	<u>\$ 54,522,038</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

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, 2022 and 2021, was \$230,127 and \$232,143, 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 \$58,727 and \$85,967 as of June 30, 2022 and 2021, 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, 2022 and 2021. 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:

	2022	2021
Endowment funds with donor restrictions (see Note 9)	\$ 8,845,874	\$ 10,002,491
Beneficial interest in split-interest agreements	2,857,000	3,066,000
Restricted for the operating fund	-	30,000
Total net assets subject to donor restriction	<u>\$ 11,702,874</u>	<u>\$ 13,098,491</u>

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

	2022	2021
Time restrictions	\$ 120,828	\$ 135,319
Donor-imposed purpose restrictions	86,808	38,700
	<u>\$ 207,636</u>	<u>\$ 174,019</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

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

	2022		
	Without Restrictions	With Restrictions	Total
Endowment funds:			
Designated endowment funds	\$ 34,134,582	\$ 225,266	\$ 34,359,848
Field of interest	8,572,868	8,514,129	17,086,997
Donor-advised	71,789,048	106,479	71,895,527
Scholarships	12,577,494	-	12,577,494
Undesignated	12,544,037	-	12,544,037
Total endowment funds	<u>\$ 139,618,029</u>	<u>\$ 8,845,874</u>	<u>\$ 148,463,903</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 9. Endowment Funds (Continued)

	2021		
	Without Restrictions	With Restrictions	Total
Endowment funds:			
Designated endowment funds	\$ 37,842,326	\$ 266,842	\$ 38,109,168
Field of interest	10,389,286	9,611,194	20,000,480
Donor-advised	83,932,007	124,455	84,056,462
Scholarships	15,064,591	-	15,064,591
Undesignated	14,134,689	-	14,134,689
Total endowment funds	<u>\$ 161,362,899</u>	<u>\$ 10,002,491</u>	<u>\$ 171,365,390</u>

The following tables summarize the changes in endowment net assets for the years ended June 30:

	2022		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ 161,362,899	\$ 10,002,491	\$ 171,365,390
Investment return	(21,443,510)	(1,056,626)	(22,500,136)
Contributions	4,281,750	-	4,281,750
Assets released from time restriction	99,991	(99,991)	-
Grants	(2,664,680)	-	(2,664,680)
Transfers to nonendowment funds	(868,894)	-	(868,894)
Fees and other expenses	(1,149,527)	-	(1,149,527)
Change in endowed net assets	<u>(21,744,870)</u>	<u>(1,156,617)</u>	<u>(22,901,487)</u>
Endowment net assets, end of year	<u>\$ 139,618,029</u>	<u>\$ 8,845,874</u>	<u>\$ 148,463,903</u>

	2021		
	Without Restrictions	With Restrictions	Total
Endowment net assets, beginning of year	\$ 107,911,687	\$ 8,804,214	\$ 116,715,901
Investment return	28,635,287	1,254,650	29,889,937
Contributions	3,931,264	-	3,931,264
Assets released from time restriction	56,373	(56,373)	-
Grants	(2,342,995)	-	(2,342,995)
Transfers from nonendowment funds	24,195,319	-	24,195,319
Fees and other expenses	(1,024,036)	-	(1,024,036)
Change in endowed net assets	<u>53,451,212</u>	<u>1,198,277</u>	<u>54,649,489</u>
Endowment net assets, end of year	<u>\$ 161,362,899</u>	<u>\$ 10,002,491</u>	<u>\$ 171,365,390</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Consolidated Financial Statements

Note 9. Endowment Funds (Continued)

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, 2022 and 2021, 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 \$32,991,000 and \$32,372,000 as of June 30, 2022 and 2021, respectively. The cash surrender value of the policies was \$4,051,773 and \$4,407,538 as of June 30, 2022 and 2021, respectively. Premiums of \$189,736 and \$186,257 during the years ended June 30, 2022 and 2021, 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 \$214,518 and \$230,627 as of June 30, 2022 and 2021, respectively. The gift annuity funds consist of cash and securities totaling \$210,057 and \$269,781 as of June 30, 2022 and 2021, 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, 2022 and 2021. Retirement plan expense was \$78,887 and \$70,625 for the years ended June 30, 2022 and 2021, 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. and subsidiaries as of and for the years ended June 30, 2022 and 2021, 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 29, 2022

Sioux Falls Area Community Foundation, Inc.

Schedules of Activities—Operating Fund
Years Ended June 30, 2022 and 2021

	2022	2021
Revenue, gains and support:		
Contributions	\$ 74,170	\$ 77,045
Sioux Empire United Way contributions	-	59,900
Investment return	(226,402)	29,115
Management fees	1,600,178	1,372,064
Kresge endowment	42,573	41,024
Administrative endowments	23,604	22,604
Total revenue, gains and support	1,514,123	1,601,752
Distributions and expenses:		
Fund services	501,724	473,850
Management and general	300,465	275,206
Asset development and fundraising	748,675	621,271
Total distributions and expenses	1,550,864	1,370,327
Transfer to gift annuity fund from reserve	27,240	27,240
Change in net assets	(63,981)	204,185
Net assets, beginning of year	3,453,074	3,248,889
Net assets, end of year	\$ 3,389,093	\$ 3,453,074
Net assets consist of:		
Without donor restrictions and undesignated	\$ 3,100,239	\$ 3,104,964
Without donor restrictions and board-designated for capital expenditures	230,127	232,143
Without donor restrictions and board-designated for charitable gift annuities payable reserve	58,727	85,967
With donor restrictions	-	30,000
Total net assets	\$ 3,389,093	\$ 3,453,074