Sioux Falls Area Community Foundation, Inc.

Consolidated Financial Report
June 30, 2018

Contents

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of the Sioux Falls Area Community Foundation, Inc. (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities 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, 2018 and 2017, 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 19, 2018

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 19,329,362	$ 10,089,119
Liquidated investments receivable	-	119,775
Interest and dividends receivable	143,712	102,612
Contributions receivable	80,270	625,270
Prepaid expenses and other assets	582,178	575,336
Beneficial interest in split-interest agreements	2,578,000	2,693,000
Investments:		
Certificates of deposit (Note 5)	8,659,097	6,049,957
Securities (Note 2)	112,159,587	110,240,295
Cash surrender value of life insurance (Note 9)	5,077,638	5,208,673
Property and equipment, net (Note 6)	1,492,541	1,513,141
Total assets	$ 150,102,385	$ 137,217,178
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 74,207	$ 66,210
Grants payable	376,250	303,050
Charitable gift annuities payable (Note 10)	281,246	291,370
Assets held for others	24,696,841	24,281,220
Total liabilities	25,428,544	24,941,850
Net assets (Notes 7 and 8):		
Unrestricted	114,121,387	101,281,106
Temporarily restricted	4,270,051	4,895,638
Permanently restricted	6,282,403	6,098,584
Total net assets	124,673,841	112,275,328
Total liabilities and net assets	$ 150,102,385	$ 137,217,178

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains (losses), and support:								
Contributions	**$ 23,887,545**	**$ 120,000**	**$ -**	**$ 24,007,545**	$ 14,092,342	$ 3,449,670	$ -	$ 17,542,012
Contributions designated for specific organizations	**(2,677,701)**	**-**	**-**	**(2,677,701)**	(2,327,583)	-	-	(2,327,583)
Investment return (Note 3)	**8,675,953**	**92,376**	**183,819**	**8,952,148**	11,540,673	474,468	343,152	12,358,293
Investment return designated for specific organizations	**(1,762,049)**	**-**	**-**	**(1,762,049)**	(2,455,605)	-	-	(2,455,605)
Change in value of split-interest agreements	**-**	**(37,355)**	**-**	**(37,355)**	-	(140,236)	-	(140,236)
Change in value of charitable gift annuities payable	**(40,295)**	**-**	**-**	**(40,295)**	(38,650)	-	-	(38,650)
Change in cash surrender value of life insurance	**(131,035)**	**-**	**-**	**(131,035)**	(94,643)	-	-	(94,643)
Net assets released from restrictions	**800,608**	**(800,608)**	**-**	**-**	1,899,623	(1,899,623)	-	-
Total revenue, gains (losses), and support	**28,753,026**	**(625,587)**	**183,819**	**28,311,258**	22,616,157	1,884,279	343,152	24,843,588
Distributions and expenses:								
Program services:								
Grants	**17,791,934**	**-**	**-**	**17,791,934**	10,832,409	-	-	10,832,409
Grants remitted on behalf of specific organizations	**(3,361,504)**	**-**	**-**	**(3,361,504)**	(1,335,860)	-	-	(1,335,860)
Investment fees	**116,945**	**-**	**-**	**116,945**	109,063	-	-	109,063
Special project expenses	**489,375**	**-**	**-**	**489,375**	496,708	-	-	496,708
Direct fund expenses	**71,210**	**-**	**-**	**71,210**	118,343	-	-	118,343
Expenses incurred on behalf of specific organizations	**(662,625)**	**-**	**-**	**(662,625)**	(657,651)	-	-	(657,651)
Life insurance premiums	**213,823**	**-**	**-**	**213,823**	284,215	-	-	284,215
Fund services	**455,475**	**-**	**-**	**455,475**	416,371	-	-	416,371
Total program services	**15,114,633**	**-**	**-**	**15,114,633**	10,263,598	-	-	10,263,598
Management and general	**221,038**	**-**	**-**	**221,038**	205,317	-	-	205,317
Asset development and fundraising	**577,074**	**-**	**-**	**577,074**	484,430	-	-	484,430
Total distributions and expenses	**15,912,745**	**-**	**-**	**15,912,745**	10,953,345	-	-	10,953,345
Change in net assets	**12,840,281**	**(625,587)**	**183,819**	**12,398,513**	11,662,812	1,884,279	343,152	13,890,243
Net assets, beginning of year	**101,281,106**	**4,895,638**	**6,098,584**	**112,275,328**	89,618,294	3,011,359	5,755,432	98,385,085
Net assets, end of year	**$ 114,121,387**	**$ 4,270,051**	**$ 6,282,403**	**$ 124,673,841**	$ 101,281,106	$ 4,895,638	$ 6,098,584	$ 112,275,328

See notes to consolidated financial statements.

Sioux Falls Area Community Foundation, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 12,398,513	$ 13,890,243
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	57,699	57,897
Net unrealized (gain) loss in fair value of investments	18,414	(6,133,604)
Realized gains on sale of investments	(5,373,874)	(3,281,994)
Contributions designated for specific organizations	2,677,701	2,327,583
Contributions of split-interest agreements	-	(2,764,400)
Payment received on charitable lead trust	77,645	77,645
Grants remitted on behalf of specific organizations	(3,361,504)	(1,335,860)
Change in charitable gift annuities payable	40,295	38,650
Change in value of split-interest agreements	37,355	(1,807,025)
Change in cash surrender value of life insurance	60,652	148,757
Change in value of assets held for others	1,099,424	1,797,954
Change in assets and liabilities:		
Liquidated investments receivable	119,775	679,182
Interest and dividends receivable	(41,100)	(27,927)
Contributions receivable	545,000	(344,500)
Prepaid expenses and other assets	(6,842)	(4,702)
Accounts payable and accrued liabilities	7,997	(16,462)
Grants payable	73,200	(24,250)
Net cash provided by operating activities	8,430,350	3,277,187
Cash flows from investing activities:		
Purchase of property and equipment	(37,099)	(21,529)
Premiums paid for life insurance policies	(213,823)	(284,215)
Proceeds from sale of real estate	-	489,600
Proceeds from life insurance policies	284,206	225,981
Proceeds from sale and maturities of investment securities and certificates of deposit	37,785,390	20,765,316
Purchase of investment securities and certificates of deposit	(36,958,362)	(22,727,239)
Net cash provided by (used in) investing activities	860,312	(1,552,086)
Cash flows from financing activities:		
Payment of charitable gift annuities payable	(50,419)	(50,420)
Net cash used in financing activities	(50,419)	(50,420)
Net increase in cash and cash equivalents	9,240,243	1,674,681
Cash and cash equivalents:		
Beginning of year	10,089,119	8,414,438
End of year	$ 19,329,362	$ 10,089,119

See notes to consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Basis of consolidation: The consolidated financial statements include the accounts of the Sioux Falls Area Community Foundation, Inc. and the following limited liability company subsidiaries: EastBank Land Company, LLC, EastBank Land Company II, LLC, EastBank Land III, LLC, and EastBank Land IV, LLC, which are collectively referred to as the Foundation. These South Dakota subsidiaries are wholly owned single-member limited liability companies that are disregarded for federal income tax purposes. All material inter-organization 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 Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Foundation also follows the recommendations made by the Financial Accounting Standards Board (FASB) Committee of Fiscal and Administrative Officers Group (FAOG) of the Council on Foundations, set forth in its “Report on Classification of Net Assets by Community Foundations” the FAOG Report, issued September 1997. FAOG recommended that, generally, net assets of community foundations be classified as unrestricted with certain limited exceptions. Funds subject to time restriction, including most split-interest arrangements, are classified as temporarily restricted. Funds are classified as permanently restricted only when both of the following conditions are met:

- The donor gift instrument does not permit invasion of the principal, and,
- The governing documents of the community foundation do not provide for the invasion of corpus.

Assets held for others: The Foundation follows the requirements of FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities.* Any fund established with the Foundation by a not-for-profit organization for its own benefit with its own funds is classified as an agency fund. The Foundation is required to report any funds deemed to be agency funds as an asset with a corresponding liability due to the other organization. The Foundation also records a liability for assets held for other organizations when a specific beneficiary is named and variance power is not granted by the donor.

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

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

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

Under the terms of the governing instruments of the Foundation, the board of directors generally has the ability to distribute the corpus of any trust or separate gift, devise, bequest, or fund at the board's sole discretion. Variance power provides the Foundation's Board of Directors with the ability to modify donor stipulations that are incapable of fulfillment or inconsistent with charitable needs of the community. As a result, all contributions not specifically restricted by the gift instrument are classified as unrestricted net assets for financial statement purposes. Contributions that are subject to other gift instruments are recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the agreement. Generally, if the corpus of a contribution will at some future time become available for spending, it is recorded as temporarily restricted. If the corpus never becomes available for spending, it is reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are received.

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. There were no contributions receivable expected to be received after one year as of June 30, 2018 and 2017. An allowance for uncollectible contributions is established based on management's judgment. As of June 30, 2018 and 2017, there was no allowance for uncollectible contributions.

Prepaid expenses and other assets: As of June 30, 2018 and 2017, prepaid expenses and other assets include $565,000 in real estate contributed to the Foundation under an agency arrangement. Contributed real estate is carried at the fair value at the time of the receipt.

Beneficial interest in split-interest agreements: The Foundation is a named charitable beneficiary for a charitable lead annuity trust and a charitable remainder unitrust (split-interest agreements). These trusts are held and managed by independent third-party trustees. The assets held in the charitable remainder trust will remain in trust, paying income to the donors during their lifetime, and a percentage of the remainder assets will be transferred to the Foundation upon the donors' deaths. The assets held in the charitable lead trust will also remain in trust; however, the Foundation will receive an annual payment during the trust's term, and the remainder will be disbursed to named beneficiaries upon termination. Both charitable trusts have been recorded in the accompanying consolidated financial statements as temporarily restricted net assets and as support of the Foundation at the present value of their estimated future benefit to the Foundation. The Foundation recognized contribution revenue from these agreements of $0 and $2,764,400 during the years ended June 30, 2018 and 2017, respectively.

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

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 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.

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 at cost. 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:

	Years
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 non-financial 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, 2018 and 2017.

Marketing and communication costs: Marketing and communication costs are expensed as incurred. Marketing and communication expense was $145,637 and $77,794 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

The Foundation files a Form 990 tax return 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, 2014. The Foundation has no federal or state tax examinations currently in process.

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

On December 22, 2017, the president of the United States signed into law the Tax Cuts and Jobs Act tax legislation. This legislation did not have a material impact on the Foundation's financial statements for the year ended June 30, 2018. For reporting periods after June 30, 2018, the Foundation is currently evaluating the potential impact, if any, of this legislation.

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.

Joint fundraising costs: The Foundation achieves some of its endowment and management goals through the solicitation of contributions. The costs of conducting those campaigns include joint costs that are not directly attributable to either the endowment or management. Total costs of $577,074 and $484,430 were allocated to asset development and fundraising for the years ended June 30, 2018 and 2017, respectively.

Recent accounting guidance: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The ASU is effective for the Foundation for the year ending June 30, 2020. The Foundation is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The new standard is effective for the Foundation for the fiscal year beginning on July 1, 2020; however, early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

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

In August 2016, the FASB issued ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. Among other things, this ASU includes qualitative and quantitative requirements in the following areas:

- Net asset classifications are being reduced from three to two categories: with donor restrictions and without donor restrictions and includes expanded disclosures about the nature and amount of any donor restrictions or any board designations of net assets without donor restrictions.

- Underwater donor-restricted endowments will be included in “with donor restrictions.” There will be enhanced required disclosures for underwater endowments, including disclosure of policies for reducing or ceasing spending from such endowments, the aggregate fair value, the aggregate original gift amount or level required to be maintained by donor or law, and the aggregate amount of any deficiencies.

- The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expirations of capital restrictions.

- Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date.

- Disclosure of expenses by both nature and function (excluding investment expenses that have been netted with investment return), disclosure of expenses netted with investment return, and enhanced disclosures regarding cost allocations.

- The ASU eliminates the requirement to disclose the unrealized gains and losses for the period related to equity securities held at the report date as previously required by ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*

The new standard is effective for the Foundation for the fiscal year beginning on July 1, 2018. The Foundation is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

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 ASU must be applied using a retrospective transition method with early adoption permitted. The ASU will be effective for the Foundation beginning on July 1, 2019. The Foundation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction, which affects the timing of contribution revenue and expense recognition. The ASU will be effective for the Foundation for the year ending June 30, 2020; however, early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Subsequent events: Subsequent events were evaluated through September 19, 2018, the date these financial statements were available to be issued.

Note 2. Investment in Securities

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

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

Note 2. Investment in Securities (Continued)

	June 30, 2017		
	Cost	Unrealized Gains or (Losses), Net	Fair Value
Government bonds, notes and funds	$ 7,484,734	$ 210,083	$ 7,694,817
Nongovernmental bonds and bond funds	13,593,005	(156,004)	13,437,001
Balanced funds	5,867,879	565,540	6,433,419
Equity funds	51,802,000	18,577,141	70,379,141
Real asset funds	11,475,843	360,856	11,836,699
Preferred and S corporation stock	157,348	2,052	159,400
Alternative asset funds	142,568	157,250	299,818
	$ 90,523,377	$ 19,716,918	$ 110,240,295

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, 2018.

Note 3. Investment Return

The investment return for the years ended June 30, 2018 and 2017, consist of the following components:

	2018	2017
Interest and dividends	$ 3,596,688	$ 2,942,695
Net realized gains	5,373,874	3,281,994
Unrealized net gain (loss) in fair value of investment securities	(18,414)	6,133,604
	$ 8,952,148	$ 12,358,293

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.

Note 4. Fair Value Measurements (Continued)

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

Alternative asset funds: As a practical expedient, investments in investment partnerships may be valued at the reported net asset value (NAV). Certain funds may provide the manager with the ability to suspend or postpone redemption (a "gate"), or a "lock-in period" upon initial subscription, within which the Foundation may not redeem without incurring a penalty. Investments valued using the NAV (or its equivalents) practical expedient have not been classified in the fair value hierarchy. As of June 30, 2018, 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, 2018 and 2017. In addition, investments reported at NAV are also included to permit reconciliation to the statements of financial position.

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Government bonds, notes and funds	$ 10,468,283	$ 501,254	$ -	$ 10,969,537
Nongovernmental bonds and bond funds	12,120,082	-	-	12,120,082
Balanced funds	10,569,905	-	-	10,569,905
Equity funds	69,468,994	-	-	69,468,994
Real asset funds	8,671,831	-	-	8,671,831
Preferred and S corporation stock	152,464	5,000	-	157,464
Alternative asset funds				201,774
Total investments	111,451,559	506,254	-	112,159,587
Beneficial interest in split-interest agreements	-	1,050,000	1,528,000	2,578,000
Assets held for others liability	-	(24,696,841)	-	(24,696,841)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Government bonds, notes and funds	$ 7,061,721	$ 633,096	$ -	$ 7,694,817
Nongovernmental bonds and bond funds	13,437,001	-	-	13,437,001
Balanced funds	6,433,419	-	-	6,433,419
Equity funds	70,379,141	-	-	70,379,141
Real asset funds	11,836,699	-	-	11,836,699
Preferred and S corporation stock	154,400	5,000	-	159,400
Alternative asset funds				299,818
Total investments	109,302,381	638,096	-	110,240,295
Beneficial interest in split-interest agreements	-	1,174,000	1,519,000	2,693,000
Assets held for others liability	-	(24,281,220)	-	(24,281,220)

Note 4 Fair Value Measurements (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis for the beneficial interest in split-interest agreements for the years ended June 30, 2018 and 2017, are summarized as follows:

	2018	2017
Balance, beginning	$ 1,519,000	$ -
Contributions	-	1,519,000
Net gains	9,000	-
Distributions	-	-
Balance, ending	$ 1,528,000	$ 1,519,000

The following table provides a summary of redemption restrictions of alternative asset funds as of June 30, 2018 and 2017:

		Fair Value	
Investment Strategy	Redemption Restrictions	2018	2017
Distressed debt	Limited to realizations of longer-term investments during the year, redeemable annually at December 31 with 120 days notice.	$ 201,774	$ 299,818

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 $8,659,097 and $6,049,957 as of June 30, 2018 and 2017, respectively. The certificates bear interest rates ranging from 1.25 percent to 2.30 percent and have maturity dates ranging from July 2018 to June 2019, 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, 2018 and 2017:

	2018	2017
Land and land improvements	$ 304,129	$ 304,129
Building and building improvements	1,357,628	1,333,648
Furniture, equipment and software	154,047	144,456
	1,815,804	1,782,233
Less accumulated depreciation	(323,263)	(269,092)
	$ 1,492,541	$ 1,513,141

Note 7. Board Designated and Restricted Net Assets

The board has designated unrestricted net 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, 2018 and 2017, was $101,124 and $83,289, respectively.

The board has designated unrestricted operating net assets as a charitable gift annuities reserve. The reserve balances include investment income. The Foundation intends to maintain this reserve at a minimum of 10 percent of charitable gift annuities payable. Also, 10 percent of the residuum of new charitable gift annuities is added to the reserve. The charitable gift annuities reserve was $154,035 and $157,429 as of June 30, 2018 and 2017, respectively.

Temporarily restricted net assets include contributions receivable, all assets related to split-interest agreements, and time or use restricted endowment funds. These net assets become unrestricted 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 classified two endowment funds as permanently restricted as of June 30, 2018. 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.

The following summarizes the net assets released from restriction for which the purposes have been fulfilled as of June 30, 2018 and 2017:

	2018	2017
Time restrictions	$ 782,426	$ 1,880,702
Donor-imposed purpose restrictions	18,182	18,921
	$ 800,608	$ 1,899,623

Note 8. 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. Contributions received that are subject to the terms of the Foundation's by-laws are generally classified as unrestricted, due to the discretion provided to the Board of Directors. Certain other contributions are received subject to trust instruments, or are subject to specific agreements with the Foundation. Until the gift matures, insurance and charitable gift annuities are classified as non-endowment funds.

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 is a maximum annual distribution of up to 5 percent per year of a fund's asset value over a three-year moving average. This is consistent with the Foundation's objective to mitigate the loss of purchasing power due to inflation, fees, and investment risk, as well as to provide additional real growth through new gifts and investment return.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds:				
Donor designated endowment funds	$ 28,874,865	$ 126,886	$ 81,161	$ 29,082,912
Field of interest	6,511,149	1,384,648	6,201,242	14,097,039
Donor advised	26,179,789	120,517	-	26,300,306
Scholarships	11,574,611	-	-	11,574,611
Undesignated	11,511,139	-	-	11,511,139
Total endowment funds	84,651,553	1,632,051	6,282,403	92,566,007
Non-endowment funds:				
Donor advised	20,249,447	-	-	20,249,447
Designated	1,268,393	-	-	1,268,393
Undesignated	223,257	-	-	223,257
Scholarships	32,500	-	-	32,500
Life insurance	5,084,561	-	-	5,084,561
Charitable gift annuities	(9,588)	-	-	(9,588)
Split interest agreements	-	2,578,000	-	2,578,000
Operating	2,621,264	60,000	-	2,681,264
Total non-endowment funds	29,469,834	2,638,000	-	32,107,834
Total funds	$ 114,121,387	$ 4,270,051	$ 6,282,403	$ 124,673,841

Note 8. Endowment Funds (Continued)

The following summarizes net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds:				
Donor designated endowment funds	$ 27,274,240	$ 116,933	$ 81,161	$ 27,472,334
Field of interest	5,283,504	1,885,949	6,017,423	13,186,876
Donor advised	24,585,798	119,486	-	24,705,284
Scholarships	11,028,642	20,270	-	11,048,912
Undesignated	10,939,045	-	-	10,939,045
Total endowment funds	79,111,229	2,142,638	6,098,584	87,352,451
Non-endowment funds:				
Donor advised	13,293,665	-	-	13,293,665
Designated	947,723	-	-	947,723
Undesignated	219,439	-	-	219,439
Life insurance	5,212,572	-	-	5,212,572
Charitable gift annuities	14,647	-	-	14,647
Split interest agreements	-	2,693,000	-	2,693,000
Operating	2,481,831	60,000	-	2,541,831
Total non-endowment funds	22,169,877	2,753,000	-	24,922,877
Total funds	$ 101,281,106	$ 4,895,638	$ 6,098,584	$ 112,275,328

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 79,111,229	$ 2,142,638	$ 6,098,584	$ 87,352,451
Investment return:				
Investment income	2,327,041	67,111	144,400	2,538,552
Net realized and unrealized gains	4,069,944	25,264	39,419	4,134,627
Total investment return	6,396,985	92,375	183,819	6,673,179
Contributions and transfers in	2,349,232	-	-	2,349,232
Assets released from time restriction	602,962	(602,962)	-	-
Grants	(2,247,698)	-	-	(2,247,698)
Transfers out	(714,711)	-	-	(714,711)
Fees and other expenses	(846,446)	-	-	(846,446)
Change in endowed net assets	5,540,324	(510,587)	183,819	5,213,556
Endowment net assets, end of year	$ 84,651,553	$ 1,632,051	$ 6,282,403	$ 92,566,007

Note 8. Endowment Funds (Continued)

The following summarizes changes in the endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 69,321,618	$ 1,672,705	$ 5,755,432	$ 76,749,755
Investment return:				
Investment income	1,876,412	60,221	112,810	2,049,443
Net realized and unrealized losses	6,566,662	78,410	230,342	6,875,414
Total investment return	8,443,074	138,631	343,152	8,924,857
Contributions and transfers in	4,329,286	565,270	-	4,894,556
Assets released from time restriction	233,968	(233,968)	-	-
Grants	(1,794,528)	-	-	(1,794,528)
Transfers out	(674,840)	-	-	(674,840)
Fees and other expenses	(747,349)	-	-	(747,349)
Change in endowed net assets	9,789,611	469,933	343,152	10,602,696
Endowment net assets, end of year	$ 79,111,229	$ 2,142,638	$ 6,098,584	$ 87,352,451

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 permanently restricted endowment investments are first used to reduce previous investment income and gains which have not been expended. Any additional losses are shown as a reduction in unrestricted net assets. As of June 30, 2018 and 2017, no such reduction in unrestricted net assets was necessary.

Note 9. Cash Surrender Value of Life Insurance

The Foundation is the owner and beneficiary of life insurance policies that insure the lives of various donors. The face value of the policies was approximately $38,094,000 and $38,997,000 as of June 30, 2018 and 2017, respectively. The cash surrender value of the policies was $5,077,638 and $5,208,673 as of June 30, 2018 and 2017, respectively. Premiums of $213,823 and $284,215 during the years ended June 30, 2018 and 2017, respectively, were paid solely from contributions received from the insured donors.

Note 10. 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 statements of activities. The charitable gift annuities payment rate ranges from 5.50 percent to 8.40 percent 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 $281,246 and $291,370 as of June 30, 2018 and 2017, respectively. The gift annuity funds consist of cash and securities totaling $272,354 and $306,770 as of June 30, 2018 and 2017, respectively.

Note 11. 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 percent of eligible compensation for each participant for the years ended June 30, 2018 and 2017. Retirement plan expense was $58,685 and $54,708 for the years ended June 30, 2018 and 2017, respectively.

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of the Sioux Falls Area Community Foundation, Inc. as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated September 19, 2018, which contains an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Sioux Falls, South Dakota
September 19, 2018

Sioux Falls Area Community Foundation, Inc.

Schedule of Functional Expenses—Operating Fund
Year Ended June 30, 2018 with Comparative Totals for 2017

	Fund Services	Management and General	Asset Development and Fundraising	Total 2018	Total 2017
Salaries	$ 268,632	$ 134,316	$ 268,632	**$ 671,580**	$ 653,129
Payroll taxes and benefits	69,274	34,638	69,274	**173,186**	171,359
Software, equipment and maintenance	37,794	18,897	37,794	**94,485**	45,514
Communications	7,608	-	68,475	**76,083**	33,850
Marketing	6,955	-	62,599	**69,554**	43,944
Depreciation	23,080	11,539	23,080	**57,699**	57,897
Professional fees	7,532	7,532	13,907	**28,971**	31,213
Supplies	8,416	4,209	8,416	**21,041**	15,472
Occupancy	5,332	2,666	5,332	**13,330**	12,947
Staff and board development	5,128	2,565	5,128	**12,821**	7,805
Insurance	4,310	2,156	4,310	**10,776**	10,468
Postage and shipping	2,690	672	3,363	**6,725**	7,214
Scholarship	5,536	-	-	**5,536**	4,962
Telephone	1,641	820	1,641	**4,102**	4,258
Organization dues	511	-	2,045	**2,556**	2,518
Miscellaneous	-	511	2,042	**2,553**	2,107
Reference materials	636	317	636	**1,589**	1,461
National organization dues	400	200	400	**1,000**	-
Total expenses	$ 455,475	$ 221,038	$ 577,074	**$ 1,253,587**	$ 1,106,118

Sioux Falls Area Community Foundation, Inc.

Statements of Activities—Operating Fund
Years Ended June 30, 2018 and 2017

	2018	2017
Revenue, gains and support:		
Contributions	$ 68,628	$ 61,620
Sioux Empire United Way contributions	120,000	120,000
Investment return	24,233	27,669
Management fees	1,127,906	938,198
Kresge endowment	39,113	39,091
Administrative endowments	20,534	19,076
Total revenue, gains, and support	1,400,414	1,205,654
Distributions and expenses:		
Fund services	455,475	416,371
Management and general	221,038	205,317
Asset development and fundraising	577,074	484,430
Total distributions and expenses	1,253,587	1,106,118
Transfer to gift annuity fund from reserve	7,394	6,077
Change in net assets	139,433	93,459
Net assets, beginning of year	2,541,831	2,448,372
Net assets, end of year	$ 2,681,264	$ 2,541,831
Net assets consist of:		
Unrestricted and undesignated	$ 2,366,105	$ 2,241,113
Unrestricted and board designated for capital expenditures	101,124	83,289
Unrestricted and board designated for charitable gift annuities payable reserve	154,035	157,429
Temporarily restricted	60,000	60,000
Total net assets	$ 2,681,264	$ 2,541,831