



Consolidated Financial Statements
December 31, 2017 and 2016

The University of South Dakota Foundation

The University of South Dakota Foundation

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December 31, 2017 and 2016

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Independent Auditor's Report

The Board of Directors
The University of South Dakota Foundation
Vermillion, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of South Dakota Foundation and its controlled entities, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years ended December 31, 2017 and 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of South Dakota Foundation and its controlled entities as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years ended December 31, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Sallee LLP".

Sioux Falls, South Dakota
July 31, 2018

The University of South Dakota Foundation
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and Cash Equivalents	\$ 3,361,394	\$ 5,760,856
Investments		
Money market funds	20,112,934	36,158,891
Certificates of deposit	1,519,724	1,453,356
Equity securities	1,506,523	1,259,194
Equity mutual funds	70,404,414	73,323,152
Fixed income mutual funds	82,967,077	44,672,070
Equity co-mingled funds	49,970,314	43,426,182
Government bonds	654,456	621,298
All asset funds	17,371,377	15,345,366
Real estate limited partnerships	8,733,696	9,080,607
Total investments	253,240,515	225,340,116
Receivables		
Promises to give	16,886,566	14,556,633
Contributions receivable - split-interest agreements	9,157,189	9,598,683
Note receivable	1,000,000	-
Total receivables	27,043,755	24,155,316
Operating Fixed Assets, Net of Accumulated Depreciation	2,445,814	1,074,324
Other Fixed Assets Held, Net of Accumulated Depreciation	1,470,187	1,305,572
Other Assets		
Prepaid expenses and other assets	214,038	243,243
Cash surrender value of life insurance	162,175	155,528
Total other assets	376,213	398,771
	\$ 287,937,878	\$ 258,034,955
Liabilities		
Accounts Payable and Accrued Expenses	\$ 369,671	\$ 379,316
Due to the University of South Dakota - Scholarships	4,026,444	3,907,450
Gift Annuities and Life Income Agreements	2,877,509	2,827,634
Investments Held for Others	12,223,723	13,449,761
Total liabilities	19,497,347	20,564,161
Net Assets		
Unrestricted	(2,908,096)	1,413,272
Temporarily restricted	104,130,645	81,092,936
Permanently restricted	167,217,982	154,964,586
Total net assets	268,440,531	237,470,794
	\$ 287,937,878	\$ 258,034,955

	2017			
	Unrestricted	Temporarily	Permanently	Total
Revenue, Support, and Gains				
Gifts	\$ 25,415	\$ 9,950,038	\$ 10,393,822	\$ 20,369,275
Investment Income				
Interest and dividends	247,168	2,561,437	975,393	3,783,998
Net realized gains and losses on investments	70,001	3,021,972	-	3,091,973
Net change in unrealized gains and losses on investments	632,708	22,786,772	-	23,419,480
Transfer for change in unrealized gains and losses on endowment investments	532,827	(532,827)	-	-
Other	792,515	769,569	836,317	2,398,401
	<u>2,300,634</u>	<u>38,556,961</u>	<u>12,205,532</u>	<u>53,063,127</u>
Transfer for donor restriction	-	(47,864)	47,864	-
Net Assets Released from Restrictions	<u>15,471,388</u>	<u>(15,471,388)</u>	<u>-</u>	<u>-</u>
Total revenue, support, and gains	<u>17,772,022</u>	<u>23,037,709</u>	<u>12,253,396</u>	<u>53,063,127</u>
Expenses				
Program Services				
Scholarships	7,576,291	-	-	7,576,291
USD departmental expenses	2,663,474	-	-	2,663,474
USD building and equipment expenses	4,742,278	-	-	4,742,278
Total program services	<u>14,982,043</u>	<u>-</u>	<u>-</u>	<u>14,982,043</u>
Support Services				
Fundraising	2,449,245	-	-	2,449,245
Administrative and general	4,662,102	-	-	4,662,102
Total support services	<u>7,111,347</u>	<u>-</u>	<u>-</u>	<u>7,111,347</u>
Total expenses	<u>22,093,390</u>	<u>-</u>	<u>-</u>	<u>22,093,390</u>
Change in Net Assets	(4,321,368)	23,037,709	12,253,396	30,969,737
Beginning Net Assets	<u>1,413,272</u>	<u>81,092,936</u>	<u>154,964,586</u>	<u>237,470,794</u>
Ending Net Assets	<u>\$ (2,908,096)</u>	<u>\$ 104,130,645</u>	<u>\$ 167,217,982</u>	<u>\$ 268,440,531</u>

See Notes to Consolidated Financial Statements

The University of South Dakota Foundation
Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

2016			
Unrestricted	Temporarily	Permanently	Total
\$ 58,352	\$ 13,213,154	\$ 6,255,721	\$ 19,527,227
598,004	2,439,545	852,147	3,889,696
88,571	3,254,500	-	3,343,071
143,966	4,446,539	-	4,590,505
66,939	(66,939)	-	-
956,629	(99,700)	(263,242)	593,687
<u>1,912,461</u>	<u>23,187,099</u>	<u>6,844,626</u>	<u>31,944,186</u>
-	(100,000)	100,000	-
<u>26,230,616</u>	<u>(26,230,616)</u>	<u>-</u>	<u>-</u>
<u>28,143,077</u>	<u>(3,143,517)</u>	<u>6,944,626</u>	<u>31,944,186</u>
7,774,489	-	-	7,774,489
3,135,931	-	-	3,135,931
<u>16,125,285</u>	<u>-</u>	<u>-</u>	<u>16,125,285</u>
<u>27,035,705</u>	<u>-</u>	<u>-</u>	<u>27,035,705</u>
2,639,088	-	-	2,639,088
3,890,680	-	-	3,890,680
<u>6,529,768</u>	<u>-</u>	<u>-</u>	<u>6,529,768</u>
<u>33,565,473</u>	<u>-</u>	<u>-</u>	<u>33,565,473</u>
(5,422,396)	(3,143,517)	6,944,626	(1,621,287)
<u>6,835,668</u>	<u>84,236,453</u>	<u>148,019,960</u>	<u>239,092,081</u>
<u>\$ 1,413,272</u>	<u>\$ 81,092,936</u>	<u>\$ 154,964,586</u>	<u>\$ 237,470,794</u>

The University of South Dakota Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 30,969,737	\$ (1,621,287)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	178,228	178,888
Depreciation - other fixed assets	57,195	57,196
Realized gain on investments	(3,091,973)	(3,343,071)
Unrealized gain on investments	(23,419,480)	(4,590,505)
Loss on disposal of fixed assets	161,081	1,426
Change in cash surrender value of life insurance	(6,647)	(930)
Change in value of contributions receivable - split-interest agreements	(1,001,596)	453,944
Change in value of gift annuities and life income agreements	(140,475)	56,623
Temporarily restricted contributions	-	(4,111,593)
Restricted for long-term purposes		
Permanently restricted gifts and revenue	(11,950,586)	(8,966,407)
Permanently restricted gifts other than cash	(254,946)	(559,081)
Changes in assets and liabilities		
Promises to give, other than permanently restricted	(2,274,641)	478,879
Contributions receivable - split-interest agreements	1,226,280	315,960
Prepaid expenses and other assets	29,205	(11,567)
Accounts payable and accrued expenses	(9,645)	(47,750)
Due to University of South Dakota - Scholarships	118,994	444,680
Gift annuities and life income agreements	190,350	120,727
Net Cash Used for Operating Activities	(9,218,919)	(21,143,868)
Investing Activities		
Note receivable - investment in South Dakota Science and Technology Authority	(1,000,000)	-
Net changes in money market funds held for investment	16,045,957	(18,220,769)
Proceeds from sale of investments	58,965,651	76,679,716
Purchases of investments	(77,626,592)	(43,469,207)
Proceeds from sale of fixed assets	-	2,999
Purchases of operating fixed assets and other fixed assets held	(1,715,799)	(77,396)
Net Cash (Used for) From Investing Activities	(5,330,783)	14,915,343
Financing Activities		
Proceeds from line of credit	5,000,000	-
Repayment of line of credit	(5,000,000)	-
Proceeds from permanently restricted gifts and revenue	12,150,240	6,472,434
Net Cash From Financing Activities	12,150,240	6,472,434
Net Change in Cash and Cash Equivalents	(2,399,462)	243,909
Beginning Cash and Cash Equivalents	5,760,856	5,516,947
Ending Cash and Cash Equivalents	\$ 3,361,394	\$ 5,760,856

The University of South Dakota Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for unrelated business income tax	\$ 195,714	\$ 147,490
Cash paid during the year for interest expense	94,183	-
Other fixed assets held received through settlement of contributions receivable - split-interest agreements	216,810	-

Note 1 - Principal Activity and Significant Accounting Policies

Principles of Consolidation

The financial statements include the consolidated accounts of The University of South Dakota Foundation (Foundation); USDF, LLC (LLC); and USDF2, LLC (LLC2); (collectively, the Organization). All material intercompany balances and transactions have been eliminated.

Organization

The Foundation is an independent organization established for the purpose of obtaining contributions for the benefit of The University of South Dakota (USD) and managing related investments.

The LLC was established to hold and manage real estate. The Foundation is the sole member of the LLC. Members of the Foundation's Executive Committee serve as directors, and the LLC is under common management with the Foundation.

The LLC2 was established to hold an airplane hangar and a dual-engine turbo prop 6 passenger airplane. The LLC2 is leasing the airplane to USD under a five-year make whole lease agreement that currently provides for annual lease payments that are based on the outstanding amount of the Organization's initial investment in the airplane. The annual lease payment is reduced if the Organization receives, from any source, a return of its initial investment. USD is responsible for all expenses related to the operations and maintenance of the airplane. The Foundation is the sole member of the LLC2. Members of the Foundation's Executive Committee serve as directors, and the LLC2 is under common management with the Foundation.

Tax Exempt Status

The Internal Revenue Service (IRS) has ruled that the Organization is a publicly supported organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. In addition, the Organization is subject to tax filings required by various state tax authorities. The LLC and LLC2 are single member LLC's, thus considered by the IRS to be disregarded entities that are not subject to separate filing requirements.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions at December 31, 2017 and 2016 that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may vary from the estimates that are used.

Consolidated Statements of Cash Flows

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for investment nor restricted by donors for long-term purposes of the Organization, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures of the Organization, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Financial Instruments and Credit Risks

The Organization manages deposit concentration risk by placing cash and cash equivalents with financial institutions believed by management to be credit worthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. Credit risk associated with promises to give and notes receivable are considered to be limited due to high historical collection rates and outstanding balances are primarily from donors and others that are supportive of the Organization's mission. Investments are managed by professional investment managers whose performance is monitored by management and the Foundation's Investment Committee of the Board of Directors. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of the donation. Thereafter, investments are recorded at their estimated fair market value. Appreciation and depreciation in fair value are reflected in the period occurred. Fluctuations in the United States and global markets can have a direct effect on the value of the investments presented in the accompanying consolidated financial statements.

To achieve its investment objectives, the Foundation has acquired interests in private equity investments and real estate limited partnerships that are not readily marketable. The fair values of these investments have been determined by management using the net asset value (NAV) provided by each fund. NAV is a practical expedient to determine the fair value of investments that do not have readily determinable fair value and to prepare financial statements consistent with the measurement principles of an investment company or consistent with the attributes of an investment company. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants based upon their pro rata share of the investments. Distributions from and liquidation of these investments is restricted based on specific terms of the fund agreements. The estimated values may differ materially from the values that would have been used had readily available markets for the investments existed.

As part of the mutual fund prospectus, certain mutual funds held by the Foundation have the ability to invest in a variety of derivative instruments as part of their investment strategy. These derivatives include, but are not limited to, interest rate swaps, credit default swaps, options, government futures, and money market futures. While the Foundation does not have discretionary control over the asset guidelines of mutual funds, it believes these instruments allow the portfolio manager to take advantage of cyclical and secular forces in the market in order to achieve their return objectives over a full market cycle. This allows the Foundation to achieve its long-term risk, and return objectives by opportunistically investing in a broad and diversified range of markets.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded and subsequently carried at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Contributions Receivable – Split Interest Agreements

The Foundation has been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Foundation has neither possession nor control over the assets of the trusts. When the notice of a beneficial interest is received, a temporarily or permanently restricted contribution is recorded in the consolidated statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the consolidated statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the consolidated statements of financial position, with changes in fair value recognized in the consolidated statements of activities.

Upon receipt of trust distributions and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released to unrestricted net assets; permanently restricted net assets are transferred to the endowment.

Operating Fixed Assets

The Organization's operating fixed assets are recorded at cost or, if donated, at fair value on the date of donation and consist of an office building, furniture, and equipment. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Fixed assets are presented in the accompanying consolidated financial statements net of accumulated depreciation of \$1,258,555 and \$1,333,649 at December 31, 2017 and 2016, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 – 40 years.

The Organization reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value may not be recoverable from the estimated future cash flows expected to result from use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2017 and December 31, 2016.

Other Fixed Assets Held

The Organization's other fixed assets held consist of land, buildings, and an airplane that are either currently being used by USD in operations or will eventually be used to support USD. Fixed assets that are being used by USD in operations are presented in the accompanying consolidated financial statements at cost or, if donated, at fair value as of the date of the donation, net of accumulated depreciation of \$317,772 and \$260,577 at December 31, 2017 and 2016, respectively. Depreciation expense, which is reflected in the consolidated statements of activities as a reduction to other revenue, support, and gains, is provided using the straight-line method over the estimated useful lives of the assets, ranging from 10 – 30 years. Fixed assets held that are not currently being used by USD in operations are presented in the accompanying consolidated financial statements at cost or, if donated, at fair value as of the date of the donation and are periodically reviewed for impairment. For the years ended at December 31, 2017 and 2016, no impairment charge has been recorded.

Gift Annuity and Life Income Agreements

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the period stipulated in the annuity contract. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted or restricted contribution based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as a contribution. The estimated present value of future annuity payments to beneficiaries is \$458,239 and \$610,661 as of December 31, 2017 and 2016, respectively.

The Foundation's life income agreements consist of various irrevocable charitable remainder unitrusts, a charitable remainder annuity trust, and a charitable lead annuity trust over which the Foundation acts as trustee. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event. The trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a temporarily or permanently restricted contribution until such amount is received via trust distribution and/or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any. At this time, temporarily restricted net assets are released to unrestricted net assets and permanently restricted net assets are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income. The present value of life income agreements total \$3,863,379 and \$3,480,514 as of December 31, 2017 and 2016, respectively. The present value of future investment income distributions to beneficiaries is \$2,419,270 and \$2,216,972 as of December 31, 2017 and 2016, respectively.

Beneficial Interest Trusts

The accompanying consolidated statements of activities include income from several irrevocable trusts administered by others. The assets of these trusts are not included in the consolidated statements of financial position because USD is the stated beneficiary of these trusts rather than the Organization. The market value on these trusts as of December 31, 2017 and 2016 was \$8,884,359 and \$7,975,438, respectively. For the years ended December 31, 2017 and 2016, the Organization received income from these trusts of \$293,058 and \$315,439, respectively.

Investments Held for Others

The Foundation's investments include funds accepted for deposit from certain other non-profit organizations. The organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation (depreciation), upon giving 90 days written notice. Accordingly, their share of the asset managed funds is recorded as a liability in the accompanying consolidated statements of financial position. Investments held for others include amounts due to USD totaling \$1,265,883 and \$1,163,368 as of December 31, 2017 and 2016, respectively.

University Support

The Organization funds various construction projects and provides operational support for the benefit of USD. Contracts for construction projects are between USD and the contractors, and liabilities for expenditures incurred by departments are the responsibility of USD. The Organization records expense for payment of projects and operational support expenditures when such payments are made, in accordance with accounting guidance for financially interrelated entities. Scholarships are deemed to be support to the individuals receiving the scholarship, accordingly scholarships are recognized as expense when the commitment to provide such support becomes unconditional.

Net Assets

Net assets, revenue, support, and gains are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets represent resources over which the Board of Directors has discretionary control. Unrestricted net assets include certain assets designated for specified purposes by the Board of Directors and transfers made for endowment funds with deficiencies.

Temporarily restricted net assets represent net assets subject to donor restrictions that will be met by expenditure and/or the passage of time and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure.

Permanently restricted net assets represent gifts and bequests which have been accepted with the donor-stipulation that the principal generally must be maintained intact in perpetuity with only the income to be utilized. Some endowments require net earnings to be permanently reinvested until a certain level of investment is attained.

Gifts

Gifts are recognized when cash, securities, unconditional promises to give, or other assets or forgiveness of liabilities are received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Gifts received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Services and Assets

Volunteers contribute significant amounts of time to the activities of the Organization without compensation. These services do not meet the criteria for being recorded as contributions under accounting principles generally accepted in the United States of America and, accordingly, have not been recorded.

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted use to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Direct Investment Fees

Management and bank fees paid to third parties totaled \$521,589 and \$415,705 for the for the years ended December 31, 2017 and 2016, respectively, and are included in administrative and general expenses on the consolidated statements of activities.

Functional Allocation of Expenses

The costs of program and support services activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and support services benefited.

Note 2 - Fair Value of Assets and Liabilities

Fair Value Measurements

Certain assets and liabilities are reported at fair value in the accompanying consolidated financial statements. Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date under current market conditions, regardless of whether that price is directly observable or is estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset and liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs related to the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Foundation's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. The government bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions; the certificates of deposit and the investments held for others liability are valued based on inputs other than quoted prices that are observable for the asset and liability. These are classified within Level 2. The promises to give and contributions receivable - split-interest agreements are valued by management applying present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets to the fair values of trust investments as reported by the trustees, and one of the Foundation's small cap equity investments is valued at the securities' stated redemption value. These are considered to be Level 3 measurements.

The Foundation uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair values of alternatives, private equity investments and real estate limited partnership investments which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The University of South Dakota Foundation
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

The following tables present assets and liabilities measured at fair value on a recurring basis, except those measured by using NAV per share as a practical expedient as identified as follows:

	2017				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Assets					
Money market funds	\$ 20,112,934	\$ 20,112,934	\$ -	\$ -	\$ -
Certificates of deposit	\$ 1,519,724	\$ -	\$ 1,519,724	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,356,502	\$ 1,356,502	\$ -	\$ -	\$ -
Mid cap	101,904	101,904	-	-	-
Small cap	19,519	19,519	-	-	-
International equity	28,598	28,598	-	-	-
	<u>\$ 1,506,523</u>	<u>\$ 1,506,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 27,039,016	\$ 27,039,016	\$ -	\$ -	\$ -
Mid cap equity	9,571,499	9,571,499	-	-	-
Small cap equity	975,684	975,684	-	-	-
International equity	32,796,088	32,796,088	-	-	-
Money market funds	22,127	22,127	-	-	-
	<u>\$ 70,404,414</u>	<u>\$ 70,404,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 16,606,639	\$ 16,606,639	\$ -	\$ -	\$ -
Structured product	39,049,904	39,049,904	-	-	-
Government	27,853,679	27,853,679	-	-	-
International	(5,164,745)	(5,164,745)	-	-	-
Alternatives	2,014,956	2,014,956	-	-	-
Money market funds	2,606,644	2,606,644	-	-	-
	<u>\$ 82,967,077</u>	<u>\$ 82,967,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	\$ 49,970,314	\$ -	\$ -	\$ -	\$ 49,970,314
Government bonds	\$ 654,456	\$ -	\$ 654,456	\$ -	\$ -
All asset funds					
Domestic equity	\$ 42,362	\$ 42,362	\$ -	\$ -	\$ -
Domestic fixed income	3,346,587	3,346,587	-	-	-
International equity	3,784,326	3,784,326	-	-	-
International fixed income	2,838,244	2,838,244	-	-	-
Alternatives	7,359,858	4,109,100	-	-	3,250,758
	<u>\$ 17,371,377</u>	<u>\$ 14,120,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,250,758</u>
Real estate limited partnerships	\$ 8,733,696	\$ -	\$ -	\$ -	\$ 8,733,696
Promises to give	\$ 16,886,566	\$ -	\$ -	\$ 16,886,566	\$ -

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	2017				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Contributions receivable - split interest agreements	\$ 9,157,189	\$ -	\$ -	\$ 9,157,189	\$ -
Liabilities					
Investments held for others	\$ 12,223,723	\$ -	\$ 12,223,723	\$ -	\$ -
	2016				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Assets					
Money market funds	\$ 36,158,891	\$ 36,158,891	\$ -	\$ -	\$ -
Certificates of deposit	\$ 1,453,356	\$ -	\$ 1,453,356	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,090,720	\$ 1,090,720	\$ -	\$ -	\$ -
Mid cap	105,790	105,790	-	-	-
Small cap	43,508	43,508	-	-	-
International equity	19,176	19,176	-	-	-
	\$ 1,259,194	\$ 1,259,194	\$ -	\$ -	\$ -
Equity mutual funds					
Large cap equity	\$ 32,468,398	\$ 32,468,398	\$ -	\$ -	\$ -
Mid cap equity	12,559,452	12,559,452	-	-	-
Small cap equity	60,682	60,682	-	-	-
International equity	28,165,743	28,165,743	-	-	-
Money market funds	68,877	68,877	-	-	-
	\$ 73,323,152	\$ 73,323,152	\$ -	\$ -	\$ -
Fixed income mutual funds					
Corporate	\$ 7,778,414	\$ 7,778,414	\$ -	\$ -	\$ -
Structured product	27,142,765	27,142,765	-	-	-
Government	22,456,994	22,456,994	-	-	-
International	1,180,660	1,180,660	-	-	-
Alternatives	1,714,877	1,714,877	-	-	-
Derivatives*	(15,601,640)	(15,601,640)	-	-	-
	\$ 44,672,070	\$ 44,672,070	\$ -	\$ -	\$ -
Equity co-mingled funds					
Private equity	\$ 43,426,182	\$ -	\$ -	\$ -	\$ 43,426,182
Government bonds	\$ 621,298	\$ -	\$ 621,298	\$ -	\$ -
All asset funds					
Domestic equity	\$ 37,165	\$ 37,165	\$ -	\$ -	\$ -
Domestic fixed income	1,541,107	1,541,107	-	-	-
International equity	3,727,356	3,727,356	-	-	-
International fixed income	2,579,326	2,579,326	-	-	-
Alternatives	7,460,412	4,503,525	-	-	2,956,887
	\$ 15,345,366	\$ 12,388,479	\$ -	\$ -	\$ 2,956,887

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	2016				Investments Measured at NAV
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Real estate limited partnerships	\$ 9,080,607	\$ -	\$ -	\$ -	\$ 9,080,607
Promises to give	\$ 14,556,633	\$ -	\$ -	\$ 14,556,633	\$ -
Contributions receivable - split interest agreements	\$ 9,598,683	\$ -	\$ -	\$ 9,598,683	\$ -
Liabilities					
Investments held for others	\$ 13,449,761	\$ -	\$ 13,449,761	\$ -	\$ -

*Indirect derivatives exposure from within the mutual funds. The Foundation does not directly manage or have direct exposure to derivatives.

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2017:

	Promises to Give	Contributions Receivable
Balance at December 31, 2016	\$ 14,556,633	\$ 9,598,683
Change in fair value	(1,515,858)	1,001,596
Additions	8,545,079	-
Withdrawals and payments	(4,699,288)	(1,443,090)
Balance at December 31, 2017	\$ 16,886,566	\$ 9,157,189
Net change in fair value of the assets are included in the consolidated statement of activities as:		
Gifts	\$ (1,515,858)	\$ -
Other	\$ -	\$ 1,001,596

The University of South Dakota Foundation
Notes to Consolidated Financial Statements
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Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2016:

	Promises to Give	Contributions Receivable
Balance at December 31, 2015	\$ 14,663,320	\$ 3,576,132
Change in fair value	(3,302,008)	(453,944)
Additions	8,741,065	6,792,455
Withdrawals and payments	(5,545,744)	(315,960)
Balance at December 31, 2016	\$ 14,556,633	\$ 9,598,683
Net change in fair value of the assets are included in the consolidated statement of activities as:		
Gifts	\$ (3,302,008)	\$ -
Other	\$ -	\$ (453,944)

Additional information on investments in certain entities that calculate NAV per share is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<u>December 31, 2017</u>				
Alternatives	\$ 3,250,758	\$ 1,907,650	(2)	(2)
Private equity	49,970,314	-	Quarterly (1)	60 days
Real estate limited partnerships	8,733,696	6,215,060	(2)	(2)
	\$ 61,954,768	\$ 8,122,710		
<u>December 31, 2016</u>				
Alternatives	\$ 2,956,887	\$ 2,289,097	(2)	(2)
Private equity	43,426,182	-	Quarterly (1)	60 days
Real estate limited partnerships	9,080,607	7,558,534	(2)	(2)
	\$ 55,463,676	\$ 9,847,631		

(1) Requested withdrawals can be limited by the fund's General Partner based on aggregate withdrawals requested. Additionally, certain withdrawal requests may exceed one year for complete divestiture.

(2) Partnership agreements contain certain provisions whereby current partners have the right of first offer prior to a secondary market offering.

Alternatives fund focuses on growth in United States and global equities. These investments are not readily redeemable; however, a secondary market exists with sale offerings allowed after the expiration of a right of first offering period to the funds' current partners. Additionally, periodic distributions are received. Fair values have been estimated using the net asset value per share (practical expedient) provided by the underlying fund manager or the general partner.

Private equity funds focus on growth in equity of United States and global securities and derivatives. These investments are readily redeemable, subject to certain restrictions. Fair values have been estimated using the practical expedient provided by the fund manager or the general partner.

Real estate limited partnership funds focus on investments in United States and global real estate assets and may include notes receivable from the fund manager. These investments are not readily redeemable; however, a secondary market exists with sale offerings allowed after the expiration of a right of first offering period to the funds' current partners. Additionally, periodic distributions are received. Fair values have been estimated using the practical expedient provided by the underlying fund manager or the general partner.

Of the total unfunded commitments as of December 31, 2017, approximately \$807,000 were paid subsequent to year end.

Fair Value of Financial Instruments Not Required to be Reported at Fair Value

The carrying amounts of cash and cash equivalents, other receivables, cash surrender value of life insurance, and accounts payable and accrued expenses approximate fair value due to the short-term nature of the items and are considered to fall within Level 1 of the fair value hierarchy. The carrying amount of liabilities under gift annuity and life income agreements is based on the discounted net present value of expected future cash payments, approximates fair value, and is considered to fall within Level 2 of the fair value hierarchy.

Note 3 - Promises to Give

Promises to give represent unconditional promises restricted for various purposes and are estimated to be collected as follows:

	2017	2016
Receivable in less than one year	\$ 5,211,452	\$ 4,395,455
Receivable in one to five years	8,463,473	6,572,215
Receivable in periods beyond five years	13,135,667	11,997,131
Total promises to give	26,810,592	22,964,801
Adjustment to fair value	(9,924,026)	(8,408,168)
Net promises to give	\$ 16,886,566	\$ 14,556,633

Conditional promises to give as of December 31, 2017 and 2016 of approximately \$17,590,000 and \$18,240,000, respectively, consist of promises to fund various USD projects and activities and are restricted by specific criteria designated by the donor. However, these conditional promises do not meet the criteria for being recognized as contributions revenue under accounting principles general accepted in the United States of America and, accordingly, have not been recognized. Recognition will occur when donor conditions have been met.

As of December 31, 2017 and 2016, promises to give from Board members accounted for approximately 5% and 25%, respectively, of total promises to give, and contributions from Board members accounted for approximately 11% and 16%, respectively, of total contributions.

Note 4 - Note Receivable

As of December 31, 2017, the Foundation has recorded a note receivable in the amount of \$1,000,000 from the South Dakota Science and Technology Authority which was issued to fund research by the borrower and is secured by the underlying Xenon gas purchased with the funds. Interest is payable quarterly at 2.5% with remaining principal and interest due December 2026. The Foundation has committed to loan an additional \$1,000,000 under the same terms as previously stated, which will be loaned upon request of the borrower. That request was made during April 2018.

Note 5 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Purpose restrictions accomplished		
Program services		
Scholarships paid	\$ 7,576,291	\$ 7,313,607
USD departmental expenses	2,663,474	3,135,933
USD building and equipment purchases/transfers	1,168,326	11,051,333
Support services		
USD fundraising	166,217	70,944
Investment fees and unrelated business income tax	704,282	608,246
Foundation administrative fee retained (1.50% and 2.00% for the years ending December 31, 2017 and 2016, respectively)	3,192,798	4,050,553
Total net assets released from restrictions	\$ 15,471,388	\$ 26,230,616

Note 6 - Endowments

The Foundation's endowment consists of 1,258 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds that the Foundation must hold in perpetuity, or for a donor-specified period, as well as funds designated by the Board of Directors or the University of South Dakota to function as endowments (funds designated). Net assets associated with endowment funds, including funds designated, are classified and reported based on the existence or absence of donor-imposed restrictions. Funds designated consist of non-endowed, donor restricted gifts that the Board of Directors have agreed to treat as endowments.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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Notes to Consolidated Financial Statements
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The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The change in endowment net assets by fund type are as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of period	\$ 2,809,802	\$ 56,716,863	\$ 154,964,586	\$ 214,491,251
Investment return				
Investment income	335,846	2,534,837	975,393	3,846,076
Net realized and unrealized appreciation	411,679	25,951,716	-	26,363,395
Total investment return	747,525	28,486,553	975,393	30,209,471
Contributions	-	-	10,393,822	10,393,822
Appropriation of endowment assets for expenditure	(56,020)	(8,242,303)	-	(8,298,323)
Investment and management fees	(118,333)	(3,820,449)	-	(3,938,782)
Other changes				
Other gains	-	584,260	836,317	1,420,577
Transfer for endowment funds with deficiencies	-	(466,197)	-	(466,197)
Transfer for donor restriction	-	-	47,864	47,864
Endowment net assets, end of period	<u>\$ 3,382,974</u>	<u>\$ 73,258,727</u>	<u>\$ 167,217,982</u>	<u>\$ 243,859,683</u>

The University of South Dakota Foundation
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	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 2,533,753	\$ 55,115,331	\$ 148,019,960	\$ 205,669,044
Investment return				
Investment income	100,830	2,886,373	852,147	3,839,350
Net realized and unrealized appreciation	<u>234,811</u>	<u>7,691,180</u>	<u>-</u>	<u>7,925,991</u>
Total investment return	335,641	10,577,553	852,147	11,765,341
Contributions	20,723	3,826,928	6,255,720	10,103,371
Appropriation of endowment assets for expenditure	(226,850)	(7,811,824)	-	(8,038,674)
Investment and management fees	(128,978)	(4,658,799)	-	(4,787,777)
Other changes				
Other gains (losses)	275,513	(401,180)	(263,241)	(388,908)
Transfer for endowment funds with deficiencies	-	68,854	-	68,854
Transfer for donor restriction	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Endowment net assets, end of year	<u>\$ 2,809,802</u>	<u>\$ 56,716,863</u>	<u>\$ 154,964,586</u>	<u>\$ 214,491,251</u>

The University of South Dakota Foundation
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Endowment net assets composition by type of fund are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2017</u>				
Donor-restricted endowment funds	\$ -	\$ 62,224,062	\$ 167,217,982	\$ 229,442,044
Board-designated endowment funds	<u>3,382,974</u>	<u>11,034,665</u>	<u>-</u>	<u>14,417,639</u>
	<u>\$ 3,382,974</u>	<u>\$ 73,258,727</u>	<u>\$ 167,217,982</u>	<u>\$ 243,859,683</u>
Number of funds	<u>3</u>	<u>13</u>	<u>1,242</u>	<u>1,258</u>
<u>December 31, 2016</u>				
Donor-restricted endowment funds	\$ -	\$ 46,878,565	\$ 154,964,586	\$ 201,843,151
Board-designated endowment funds	<u>2,809,802</u>	<u>9,838,298</u>	<u>-</u>	<u>12,648,100</u>
	<u>\$ 2,809,802</u>	<u>\$ 56,716,863</u>	<u>\$ 154,964,586</u>	<u>\$ 214,491,251</u>
Number of funds	<u>3</u>	<u>12</u>	<u>1,204</u>	<u>1,219</u>

Funds with Deficiencies

From time to time, the fair value of assets 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. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets are \$-0- and \$532,828 as of December 31, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that will be greater than the median return on a university or comparable foundation and endowment portfolios, and in the long-term meet or exceed the guideline of spending plus the Consumer Price Index. In addition, the risk-adjusted performance of each asset class should meet or exceed that of its respective benchmark.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment results are achieved through 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 objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of calculating an annual distribution from its endowment fund based on the average fair value over the period of 36 months through the fiscal year-end proceeding the fiscal year in which the appropriation is made and distribution is planned. The distribution rate is subject to review by the Board of Directors annually. For the years ended December 31, 2017 and 2016, the rate was 4.0% and 4.2%, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate that will maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 7 - Restrictions on Net Assets

Unrestricted net assets are summarized as follows:

	2017	2016
Undesignated		
Operations	\$ (7,526,119)	\$ (3,860,872)
Transfer for endowment funds with deficiencies	-	(532,828)
Total undesignated	(7,526,119)	(4,393,700)
Board designated	4,618,023	5,806,972
Total unrestricted net assets	\$ (2,908,096)	\$ 1,413,272

The University of South Dakota Foundation
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Temporarily restrict net assets are available for the following purposes:

	2017	2016
Currently available		
Scholarships	\$ 5,880,400	\$ 5,259,866
Student support	888,154	761,755
USD faculty	3,354,976	2,718,384
USD academic programs	5,092,587	4,599,368
USD general support	4,945,584	4,637,520
USD buildings and equipment	10,710,217	6,399,180
Total currently available	30,871,918	24,376,073
For future periods		
USD support	66,833,667	50,877,218
Foundation support*	6,425,060	5,839,645
Total for future periods	73,258,727	56,716,863
	\$ 104,130,645	\$ 81,092,936

*Foundation support consists of unappropriated endowment earnings that are dedicated to support Foundation operations.

Permanently restricted net assets with expendable earnings are available for the following purposes:

	2017	2016
Scholarships	\$ 97,735,104	\$ 91,319,030
Student support	7,572,628	7,473,346
USD faculty	27,118,797	21,826,023
USD academic programs	30,491,480	30,265,303
USD general support	2,689,586	2,544,208
USD buildings and equipment	131,583	131,583
Foundation operations	1,478,804	1,405,093
	\$ 167,217,982	\$ 154,964,586

Note 8 - Retirement Plan

The Foundation maintains a retirement plan covering all full-time employees. Upon employment, employees who have achieved the age of 18 can defer a portion of their compensation as limited by current tax regulations. Employees who have completed one year and at least 1,000 hours of service are eligible to participate in any discretionary amounts the Foundation contributes to the plan. Currently, the Foundation matches 100% of employee contributions up to 6% of the eligible employees' salaries. Employees are 100% vested immediately in all contributions to the plan. The Foundation made contributions of \$115,819 and \$118,535 to the plan for the years ended December 31, 2017 and 2016, respectively.

Note 9 - Commitments and Contingencies

Conditional Gift

The Foundation has entered into an agreement with a major health care system and USD under which the Foundation will receive a total of \$10,180,000 over a period of thirty years. A gift of approximately \$8,398,000 was recorded in a prior year based on the estimated net present value of the cash payments specified in the agreement. As of December 31, 2017, total payments of \$10,060,000 had been received, with the remaining \$120,000 outstanding due in annual payments of \$10,000 through May 2029. The agreement requires that a pro-rata portion of the gift be paid back to the health care system should USD default on its obligation to allow the health care system to use its name. As of December 31, 2017, approximately \$4,281,300 of the gift is subject to repayment. No liability has been recognized for this contingency because the Foundation and USD believe the likelihood of defaulting on the obligation is remote.

Pledged Collateral

On November 1, 2017, the Foundation agreed to pledge \$2,000,000 in collateral, in a secondary position, for the planning, construction, and financing of the National Music Museum's expansion project.

Leases

The Foundation leases office space under a long-term operating lease agreement. The agreement expires in 2023. The estimated future minimum lease payments by year are summarized as follows:

<u>Years Ending December 31,</u>	
2018	\$ 48,424
2019	72,636
2020	72,636
2021	72,636
2022	72,636
2023	24,214
	<hr/>
	\$ 363,182
	<hr/> <hr/>

Line of Credit

The Foundation has committed to assist USD in the construction of an athletic complex by providing up to \$13,500,000 of construction financing. An unsecured line of credit totaling \$13,000,000 was established with a banking institution to fund this commitment and has been renewed after year end through June 2019. This line of credit has a variable interest rate, which is the 3 month LIBOR Index plus 2.5%.

Subsequent Commitments

During June 2018, the Foundation committed to a capital guarantee for the USD Discovery District in Sioux Falls, South Dakota, with a maximum amount of \$3,100,000 and a term of no more than 20 years commencing on or before June 9, 2019.

Note 10 - Subsequent Events

The Foundation has evaluated subsequent events as of July 31, 2018, the date which these financial statements were available to be issued.



Supplementary Information
December 31, 2017 and 2016

The University of South Dakota Foundation



Independent Auditor's Report on Supplementary Information

The Board of Directors
The University of South Dakota Foundation
Vermillion, South Dakota

We have audited the consolidated financial statements of The University of South Dakota Foundation and its controlled entities as of and for the years ended December 31, 2017 and 2016, and our report thereon dated July 31, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information shown on pages 28 - 29 is presented for the 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, except that portion marked "unaudited", 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, except that portion marked "unaudited", is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
July 31, 2018

The University of South Dakota Foundation
 Schedule of Administrative and Fundraising Expenses
 Years Ended December 31, 2017 and 2016

	2017			2016		
	Fundraising	Administrative and General	Total	Fundraising	Administrative and General	Total
Staffing	\$ 1,404,611	\$ 2,449,022	\$ 3,853,633	\$ 1,333,945	\$ 2,147,121	\$ 3,481,066
Engagement	230,679	402,648	633,327	199,867	251,593	451,460
Fundraising programs	388,199	111,888	500,087	776,567	47,899	824,466
Research	-	132,922	132,922	-	149,387	149,387
Campaign consultant	49,376	5,486	54,862	47,059	5,229	52,288
Board and professional services	27,890	172,303	200,193	-	126,405	126,405
Computer and technology	2,747	247,755	250,502	4,553	250,905	255,458
Occupancy	77,622	95,275	172,897	87,561	74,399	161,960
Depreciation	56,928	121,300	178,228	71,555	107,333	178,888
Office equipment and supplies	18,062	67,116	85,178	20,562	56,762	77,324
Other	26,914	121,025	147,939	26,475	32,985	59,460
USD fundraising	166,217	-	166,217	70,944	-	70,944
Property management	-	13,419	13,419	-	16,145	16,145
Direct investment fees	-	721,943	721,943	-	624,517	624,517
Total administrative and fundraising expenses	\$ 2,449,245	\$ 4,662,102	\$ 7,111,347	\$ 2,639,088	\$ 3,890,680	\$ 6,529,768

The University of South Dakota Foundation
Schedule of Funds Provided for USD Support - Unaudited
Years Ended June 30, 1996 - 2017

	Scholarships	Other	Equipment Facilities	Total
June 30, 1996	\$ 1,069,373	\$ 1,208,878	\$ 6,899,807	\$ 9,178,058
June 30, 1997	1,338,416	1,138,687	1,566,138	4,043,241
June 30, 1998	1,502,512	1,142,229	540,556	3,185,297
June 30, 1999	1,741,963	1,440,814	134,710	3,317,487
June 30, 2000	1,818,086	1,553,607	367,720	3,739,413
June 30, 2001	2,037,604	1,973,082	841,889	4,852,575
June 30, 2002	1,892,408	2,345,156	2,759,813	6,997,377
June 30, 2003	2,165,382	1,889,623	4,058,689	8,113,694
June 30, 2004	2,331,468	1,754,664	1,121,350	5,207,482
June 30, 2005	2,634,534	1,800,184	869,625	5,304,343
June 30, 2006	3,039,831	1,761,217	2,011,317	6,812,365
June 30, 2007	2,958,920	2,305,850	3,998,942	9,263,712
June 30, 2008	4,348,186	2,437,619	4,533,318	11,319,123
June 30, 2009	5,295,897	2,645,927	10,938,951	18,880,775
June 30, 2010	5,300,391	2,654,210	6,089,347	14,043,948
June 30, 2011	5,526,006	2,045,594	2,220,806	9,792,406
June 30, 2012	5,821,416	2,645,163	3,911,136	12,377,715
June 30, 2013	5,941,570	2,824,045	2,488,073	11,253,688
June 30, 2014	6,438,996	2,809,887	2,191,290	11,440,173
June 30, 2015	7,140,871	2,592,030	5,874,821	15,607,722
December 31, 2015	3,481,880	1,214,880	367,070	5,063,830
December 31, 2016	7,703,504	3,135,931	16,125,285	26,964,720
December 31, 2017	7,504,328	2,829,692	4,742,278	15,076,298
	<u>\$ 89,033,542</u>	<u>\$ 48,148,969</u>	<u>\$ 84,652,931</u>	<u>\$ 221,835,442</u>

	Fiscal Year(s)	Fiscal Year 1996 - 2017 Total Support
Major facility projects completed		
Health Science Information Center	1996	\$ 6,286,434
Old Main	1996 - 2002	2,303,471
Vucurevich Childcare Center	2001	350,000
Dakota Dome roof	2001 - 2002	2,267,077
Allen H. Neuharth Center	2002 - 2003	4,250,000
Belbas Center	2004 - 2007	1,860,258
Lee Medical School	2006 - 2014	12,516,859
Muenster University Student Center	2009 - 2015	5,197,288
Beacom School of Business	2001 - 2015	13,726,047
Slagle Auditorium	2010 - 2015	3,600,479
Coyote Athletic Complex	2012 - 2017	26,363,797
Total major facility projects completed		<u>78,721,710</u>
Other USD facility and equipment support	1996 - 2017	<u>5,931,221</u>
		<u>\$ 84,652,931</u>