



Consolidated Financial Statements
December 31, 2019 and 2018

The University of South Dakota
Foundation

The University of South Dakota Foundation

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December 31, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
August 13, 2020

The University of South Dakota Foundation
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and Cash Equivalents	\$ 10,981,591	\$ 3,510,389
Investments		
Money market funds	21,183,767	28,220,480
Certificates of deposit	-	842,104
Equity securities	1,523,331	1,300,620
Equity mutual funds	78,339,170	49,953,505
Fixed income mutual funds	89,157,070	88,789,210
Equity co-mingled funds	42,715,815	43,154,964
Government bonds	628,902	641,744
All asset funds	18,178,475	16,456,111
Real estate limited partnerships	10,471,014	9,062,918
Total investments	262,197,544	238,421,656
Receivables		
Promises to give	11,210,226	15,574,717
Contributions receivable - split-interest agreements	7,908,360	8,336,961
Notes receivable	2,000,000	3,529,267
Total receivables	21,118,586	27,440,945
Operating Fixed Assets, Net of Accumulated Depreciation	2,561,146	2,722,036
Other Fixed Assets Held, Net of Accumulated Depreciation	1,926,480	1,795,626
Other Assets		
Prepaid expenses and other assets	178,734	317,998
Cash surrender value of life insurance	175,989	172,928
Total other assets	354,723	490,926
	\$ 299,140,070	\$ 274,381,578
Liabilities		
Accounts Payable and Accrued Expenses	\$ 400,219	\$ 324,998
Due to the University of South Dakota - Scholarships	5,120,635	3,694,725
Gift Annuities and Life Income Agreements	2,725,004	2,435,337
Investments Held for Others	10,708,104	11,181,976
Total liabilities	18,953,962	17,637,036
Net Assets (Deficit)		
Without Donor Restrictions	(8,139,455)	(5,462,288)
With Donor Restrictions	288,325,563	262,206,830
Total net assets	280,186,108	256,744,542
	\$ 299,140,070	\$ 274,381,578

The University of South Dakota Foundation
Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains						
Gifts	\$ 96,106	\$ 16,268,466	\$ 16,364,572	\$ 17,229	\$ 12,442,356	\$ 12,459,585
Net investment return	1,120,712	32,580,601	33,701,313	(128,657)	(3,751,407)	(3,880,064)
Other (loss)	902,613	2,452,554	3,355,167	1,043,610	(471,603)	572,007
	<u>2,119,431</u>	<u>51,301,621</u>	<u>53,421,052</u>	<u>932,182</u>	<u>8,219,346</u>	<u>9,151,528</u>
Net assets released from restrictions	<u>21,871,572</u>	<u>(21,871,572)</u>	<u>-</u>	<u>17,361,143</u>	<u>(17,361,143)</u>	<u>-</u>
Total revenue, support, and gains	<u>23,991,003</u>	<u>29,430,049</u>	<u>53,421,052</u>	<u>18,293,325</u>	<u>(9,141,797)</u>	<u>9,151,528</u>
Expenses						
Program services						
Scholarships	9,807,057	-	9,807,057	7,555,928	-	7,555,928
USD departmental expenses	3,640,674	-	3,640,674	3,516,639	-	3,516,639
USD building and equipment expenses	7,005,575	-	7,005,575	2,530,577	-	2,530,577
Total program services	<u>20,453,306</u>	<u>-</u>	<u>20,453,306</u>	<u>13,603,144</u>	<u>-</u>	<u>13,603,144</u>
Support services						
Fundraising	2,825,315	-	2,825,315	2,487,793	-	2,487,793
Administrative and general	3,389,549	-	3,389,549	4,756,580	-	4,756,580
Total support services	<u>6,214,864</u>	<u>-</u>	<u>6,214,864</u>	<u>7,244,373</u>	<u>-</u>	<u>7,244,373</u>
Loss on uncollectable promises to give	<u>-</u>	<u>3,311,316</u>	<u>3,311,316</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>26,668,170</u>	<u>3,311,316</u>	<u>29,979,486</u>	<u>20,847,517</u>	<u>-</u>	<u>20,847,517</u>
Change in Net Assets	(2,677,167)	26,118,733	23,441,566	(2,554,192)	(9,141,797)	(11,695,989)
Beginning Net Assets	<u>(5,462,288)</u>	<u>262,206,830</u>	<u>256,744,542</u>	<u>(2,908,096)</u>	<u>271,348,627</u>	<u>268,440,531</u>
Ending Net Assets	<u>\$ (8,139,455)</u>	<u>\$ 288,325,563</u>	<u>\$ 280,186,108</u>	<u>\$ (5,462,288)</u>	<u>\$ 262,206,830</u>	<u>\$ 256,744,542</u>

The University of South Dakota Foundation

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 23,441,566	\$ (11,695,989)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	168,816	162,768
Depreciation - other fixed assets	57,196	57,195
Realized gain on investments	(4,417,818)	(4,419,736)
Unrealized loss (gain) on investments	(23,688,890)	13,089,238
Loss on disposal of fixed assets	10,789	-
Loss on uncollectable promises to give	3,311,316	-
Change in cash surrender value of life insurance	(3,061)	(10,753)
Change in value of contributions receivable - split-interest agreements	(1,845,110)	323,428
Change in value of gift annuities and life income agreements	(101,281)	200,699
Noncash contribution of building and expenses to USD Restricted for long-term purposes	1,529,267	-
Gifts and revenue	(7,405,723)	(3,318,469)
Gifts other than cash	(185,288)	(312,633)
Changes in assets and liabilities		
Promises to give, other than restricted for long-term purposes	1,012,909	699,041
Contributions receivable - split-interest agreements	1,867,238	496,800
Prepaid expenses and other assets	139,264	(103,960)
Accounts payable and accrued expenses	75,221	(44,673)
Due to University of South Dakota - Scholarships	1,425,910	(331,719)
Gift annuities and life income agreements	390,948	(642,871)
Net Cash Used for Operating Activities	(4,216,731)	(5,851,634)
Investing Activities		
Note receivable - investment in South Dakota Science and Technology Authority	-	(1,000,000)
Note receivable - University of South Dakota	-	(1,529,267)
Net changes in money market funds held for investment	7,036,713	(8,107,546)
Proceeds from sale of investments	60,046,514	39,517,172
Purchases of investments	(63,226,279)	(26,302,016)
Proceeds from sale of other fixed assets held	233,213	-
Purchases of operating fixed assets and other fixed assets held	(33,505)	(821,624)
Net Cash From Investing Activities	4,056,656	1,756,719
Financing Activities		
Proceeds from gifts and revenue restricted for long-term purposes	7,631,277	4,243,910
Net Change in Cash and Cash Equivalents	7,471,202	148,995
Cash and Cash Equivalents, Beginning of Year	3,510,389	3,361,394
Cash and Cash Equivalents, End of Year	\$ 10,981,591	\$ 3,510,389

The University of South Dakota Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Supplemental Disclosure of Cash Flow Information		
Cash (received) paid during the year for unrelated business income tax	\$ (17,315)	\$ (62,721)
Other fixed assets held received through settlement of contributions receivable - split-interest agreements	406,473	-

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 significant intercompany balances and transactions have been eliminated consolidation.

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 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 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates, and those differences could be material.

Consolidated Statement of Cash Flows

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, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures of the Organization, endowments that are perpetual in nature, or other long-term purposes 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 in money market mutual funds. To date, no losses have been experienced in any other these accounts. 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 fair values in the consolidated statements of financial position. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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 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. At the date the Foundation receives notice of a beneficial interest, a contribution with donor restrictions 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 or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

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 \$1,197,956 and \$1,045,142 at December 31, 2019 and 2018, 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, 2019 and 2018.

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 \$432,165 and \$374,969 at December 31, 2019 and 2018, 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, 2019 and 2018, 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 stipulated period. 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 a contribution without donor restrictions or a contribution with donor restrictions 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 income. The estimated present value of future annuity payments to beneficiaries is \$413,144 and \$435,497 as of December 31, 2019 and 2018, 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 contribution with donor restrictions. Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released. 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 \$3,763,773 and \$3,293,178 as of December 31, 2019 and 2018, respectively. The present value of future investment income distributions to beneficiaries is \$2,311,860 and \$1,999,840 as of December 31, 2019 and 2018, 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, 2019 and 2018 was \$9,280,045 and \$7,941,283, respectively. For the years ended December 31, 2019 and 2018, the Organization received income from these trusts of \$345,985 and \$322,823, 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 \$1,263,067 and \$1,170,670 as of December 31, 2019 and 2018, respectively.

Investments held for others include amounts due to the Alumni Association of USD totaling \$1,432,950 and \$1,249,705 as of December 31, 2019 and 2018, respectively. The Alumni Association of USD is a separately unincorporated 501(c)(3) organization; however, the Foundation Board of Directors is acting as the fiscal agent and has fiduciary responsibility for the assets of the Alumni Association of USD and the performance and oversight of its operations.

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 or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net Assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

The Organization recognizes gifts when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Gifts received are recorded as without donor restriction support or with donor restricted support, depending on the existence or absence of donor restrictions. When a restriction expires, donor imposed restrictions are reclassified to net assets without donor restrictions 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; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Donated property, marketable securities, and other non-cash donations are recorded as contributions at their respective fair value at the date of the donation. Such donations are reported as without donor restrictions support or with donor restrictions support, depending on the existence or absence of donor restrictions. When a restriction expires, donor imposed restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to program service activities or supporting services activities. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: (a) campaign consultant, occupancy, depreciation, and office equipment and supplies, which are allocated on an average full-time equivalency by function basis and (b) staff, engagement, fundraising programs, travel, research, board and professional services, computer and technology, and other which are allocated on a mixed basis of staff function, average full-time equivalency by function basis and actual costs incurred by function. The costs of program service activities and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. Note 10 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Change in Accounting Policy

As of January 1, 2019, the Organization adopted Accounting Standards Update (ASU) NO. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standards improve the usefulness and understandability of the Organization’s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Note 2 - Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Operating investments	\$ 960,273	\$ 948,347
Receivables		
Promises to give	-	980
Contributions receivable - split-interest agreements	108,981	96,341
Gift fees	864,000	-
Appropriate of expenditures on unrestricted board designated funds	285,000	-
Endowment spending-rate distributions and appropriations	198,000	220,000
Anticipated endowment administrative fees	3,307,500	3,292,000
	<u>\$ 5,723,754</u>	<u>\$ 4,557,668</u>

Endowment funds consist of donor restricted endowments and funds designated by the board as endowments. Income from donor restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor restricted endowment funds are not available for general expenditure. The Foundation assesses an annual administrative fee of 1.5% on each endowment fund. The proceeds from the fee are a significant component of the Foundation’s operating budget. Anticipated fees to be assessed one year from the financial position date are presented as a source of liquidity above. Beginning in 2020, the Foundation’s Board of Directors approved a 5% gift fee on all gifts to be assessed upon receipt of cash.

A board-designated endowment of \$2,574,733 and \$3,066,968 as of December 31, 2019 and 2018, respectively, is subject to an annual spending rate of 4.0 percent as described in Note 6. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board’s annual budget approval and appropriation), these amounts could be made available if necessary. The University of South Dakota also provides annual support to the Foundation. Annual support expected to be received from the University of South Dakota during 2020 and 2019 is \$800,000 and \$740,000, respectively.

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDS, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve. The market value of this reserve was \$1,719,894 and \$1,371,016 as of December 31, 2019 and 2018, respectively.

Note 3 - 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or 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 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the 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 – Unobservable inputs related to the asset or liability. In these situations, inputs are developed 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.

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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. Fair values of promises to give and contributions receivable - split-interest agreements are determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. 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, as a practical expedient 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 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:

	2019				
	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	\$ 21,183,767	\$ 21,183,767	\$ -	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,406,071	\$ 1,406,071	\$ -	\$ -	\$ -
Mid cap	86,970	86,970	-	-	-
Small cap	9,873	9,873	-	-	-
International equity	20,417	20,417	-	-	-
	<u>\$ 1,523,331</u>	<u>\$ 1,523,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 24,241,132	\$ 24,241,132	\$ -	\$ -	\$ -
Mid cap equity	3,938,000	3,938,000	-	-	-
Small cap equity	2,335,616	2,335,616	-	-	-
International equity	47,824,422	47,824,422	-	-	-
	<u>\$ 78,339,170</u>	<u>\$ 78,339,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 30,512,932	\$ 30,512,932	\$ -	\$ -	\$ -
Structured product	36,374,437	36,374,437	-	-	-
Government	26,340,740	26,340,740	-	-	-
International	7,269,438	7,269,438	-	-	-
Alternatives	479,050	479,050	-	-	-
Money market funds	(11,819,527)	(11,819,527)	-	-	-
	<u>\$ 89,157,070</u>	<u>\$ 89,157,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	2019				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)	
Equity co-mingled funds					
Private equity	\$ 42,715,815	\$ -	\$ -	\$ -	\$ 42,715,815
Government bonds	\$ 628,902	\$ -	\$ 628,902	\$ -	\$ -
All asset funds					
Domestic fixed income	\$ 3,122,119	\$ 3,122,119	\$ -	\$ -	\$ -
International equity	4,582,927	4,582,927	-	-	-
International fixed income	1,990,709	1,990,709	-	-	-
Alternatives	8,482,720	4,625,891	-	-	3,856,829
	\$ 18,178,475	\$ 14,321,646	\$ -	\$ -	\$ 3,856,829
Real estate limited partnerships	\$ 10,471,014	\$ -	\$ -	\$ -	\$ 10,471,014
Promises to give	\$ 11,210,226	\$ -	\$ -	\$ 11,210,226	\$ -
Contributions receivable - split interest agreements	\$ 7,908,360	\$ -	\$ -	\$ 7,908,360	\$ -
Liabilities					
Investments held for others	\$ 10,708,104	\$ -	\$ 10,708,104	\$ -	\$ -
	2018				
	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	\$ 28,220,480	\$ 28,220,480	\$ -	\$ -	\$ -
Certificates of deposit	\$ 842,104	\$ -	\$ 842,104	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,153,116	\$ 1,153,116	\$ -	\$ -	\$ -
Mid cap	122,786	122,786	-	-	-
Small cap	9,683	9,683	-	-	-
International equity	15,035	15,035	-	-	-
	\$ 1,300,620	\$ 1,300,620	\$ -	\$ -	\$ -
Equity mutual funds					
Large cap equity	\$ 16,022,660	\$ 16,022,660	\$ -	\$ -	\$ -
Mid cap equity	6,776,424	6,776,424	-	-	-
Small cap equity	749,684	749,684	-	-	-
International equity	26,404,737	26,404,737	-	-	-
	\$ 49,953,505	\$ 49,953,505	\$ -	\$ -	\$ -

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	2018				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)	
Fixed income mutual funds					
Corporate	\$ 19,738,216	\$ 19,738,216	\$ -	\$ -	\$ -
Structured product	38,911,699	38,911,699	-	-	-
Government	27,107,004	27,107,004	-	-	-
International	(3,478,279)	(3,478,279)	-	-	-
Alternatives	1,554,185	1,554,185	-	-	-
Money market funds	4,956,385	4,956,385	-	-	-
	<u>\$ 88,789,210</u>	<u>\$ 88,789,210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	<u>\$ 43,154,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,154,964</u>
Government bonds	<u>\$ 641,744</u>	<u>\$ -</u>	<u>\$ 641,744</u>	<u>\$ -</u>	<u>\$ -</u>
All asset funds					
Domestic equity	\$ 38,290	\$ 38,290	\$ -	\$ -	\$ -
Domestic fixed income	3,024,871	3,024,871	-	-	-
International equity	3,420,529	3,420,529	-	-	-
International fixed income	2,565,397	2,565,397	-	-	-
Alternatives	7,407,024	3,714,082	-	-	3,692,942
	<u>\$ 16,456,111</u>	<u>\$ 12,763,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,692,942</u>
Real estate limited partnerships	<u>\$ 9,062,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,062,918</u>
Promises to give	<u>\$ 15,574,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,574,717</u>	<u>\$ -</u>
Contributions receivable					
- split interest agreements	<u>\$ 8,336,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,336,961</u>	<u>\$ -</u>
Liabilities					
Investments held for others	<u>\$ 11,181,976</u>	<u>\$ -</u>	<u>\$ 11,181,976</u>	<u>\$ -</u>	<u>\$ -</u>

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The following 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, 2019:

	Promises to Give	Contributions Receivable
Balance at December 31, 2018	\$ 15,574,717	\$ 8,336,961
Change in fair value	256,471	1,845,110
Additions	3,801,173	-
Loss on uncollectable promises to give	(3,311,316)	-
Withdrawals and payments	(5,110,819)	(2,273,711)
Balance at December 31, 2019	\$ 11,210,226	\$ 7,908,360
Net change in fair value of the assets are included in the consolidated statement of activities as		
Gifts	\$ 256,471	\$ -
Loss on uncollectable promises to give	(3,311,316)	-
Other	-	1,845,110

The following 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, 2018:

	Promises to Give	Contributions Receivable
Balance at December 31, 2017	\$ 16,886,566	\$ 9,157,189
Change in fair value	210,057	(323,428)
Additions	2,656,825	-
Withdrawals and payments	(4,178,731)	(496,800)
Balance at December 31, 2018	\$ 15,574,717	\$ 8,336,961
Net change in fair value of the assets are included in the consolidated statement of activities as		
Gifts	\$ 210,057	\$ -
Other	-	(323,428)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternatives	\$ 3,856,829	\$ 966,439	(2)	(2)
Private equity	42,715,815	-	Quarterly (1)	60 days
Real estate limited partnerships	10,471,014	5,679,470	(2)	(2)
	\$ 57,043,658	\$ 6,645,909		

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Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternatives	\$ 3,692,942	\$ 1,498,866	(2)	(2)
Private equity	43,154,964	-	Quarterly (1)	60 days
Real estate limited partnerships	<u>9,062,918</u>	<u>4,463,018</u>	(2)	(2)
	<u>\$ 55,910,824</u>	<u>\$ 5,961,884</u>		

(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 – Funds focus 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, 2019, approximately \$647,000 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 4 - Promises to Give

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

	2019	2018
Receivable within one year	\$ 3,191,130	\$ 5,070,717
Receivable in one to five years	5,084,978	7,357,695
Receivable in periods beyond five years	12,391,616	12,860,274
Total promises to give	20,667,724	25,288,686
Adjustment to fair value	(9,457,498)	(9,713,969)
Net promises to give	\$ 11,210,226	\$ 15,574,717

Conditional promises to give as of December 31, 2019 and 2018 of approximately \$15,760,000 and \$15,720,000, 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. Additionally, one conditional promise to give has a 1 to 1 match. Match amount is not included within the above conditional promises to give as the match will be received upon receipt of the conditional promise to give. As of December 31, 2019, the available match to be received is \$1,200,000.

As of December 31, 2019 and 2018, promises to give from Board members accounted for approximately 13% and 10%, respectively, of total promises to give and contributions from Board members accounted for approximately 15%, of total contributions.

Note 5 - Notes Receivable

As of December 31, 2019 and 2018, the Foundation has recorded a note receivable in the amount of \$2,000,000, respectively, 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.

As of December 31, 2018, the Foundation had recorded a note receivable in the amount of \$1,529,267 from USD which was issued to fund construction and renovations made upon USD's presidential residence, Inman House. During the year ending December 31, 2019, the Foundation approved gifting these expenses incurred to the University. Expenses are included within USD building and equipment expenses within the accompanying 2019 statement of activities.

Note 6 - Endowments

The Foundation's endowment consists of 1,297 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 retains in perpetuity (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are subject to appropriation 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

As of December 31, 2019, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,574,732	\$ 10,947,266	\$ 13,521,998
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	179,560,662	179,560,662
Accumulated investment gains	-	67,313,068	67,313,068
	\$ 2,574,732	\$ 257,820,996	\$ 260,395,728
Number of funds	3	1,294	1,297

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As of December 31, 2018, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,066,968	\$ 10,308,426	\$ 13,375,394
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	170,860,175	170,860,175
Accumulated investment gains	-	47,180,965	47,180,965
	\$ 3,066,968	\$ 228,349,566	\$ 231,416,534
Number of funds	3	1,271	1,274

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. The Foundation and Board of Directors has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019, funds with original gift values of \$118,538, fair values of \$111,589 and deficiencies of \$6,949 were reported in net assets with donor restrictions. The fair values of the funds were equal to or greater than the original gift values. At December 31, 2018, funds with original gift values of \$45,716,093, fair values of \$44,668,002 and deficiencies of \$1,048,091 were reported in net assets with donor restrictions. The fair values of the funds were equal to or greater than the original gift values

Investment and Spending Policies

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.

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.

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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, 2019 and 2018, the rate was 4.0%. 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.

Changes in endowment net assets by fund type for the year ended December 31, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,066,968	\$ 228,349,566	\$ 231,416,534
Net investment return	839,603	29,158,969	29,998,572
Contributions	549,284	7,591,011	8,140,295
Appropriation of endowment assets for expenditure	(1,881,123)	(8,211,279)	(10,092,402)
Other changes			
Other gains	-	2,120,423	2,120,423
Loss on uncollectable promises to give	-	(1,000,000)	(1,000,000)
Transfer for endowment funds with deficiencies	-	-	-
Transfer for donor restriction	-	(187,694)	(187,694)
	<u>\$ 2,574,732</u>	<u>\$ 257,820,996</u>	<u>\$ 260,395,728</u>
Endowment net assets, end of year	<u>\$ 2,574,732</u>	<u>\$ 257,820,996</u>	<u>\$ 260,395,728</u>

Changes in endowment net assets by fund type for the year ended December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,382,974	\$ 240,476,709	\$ 243,859,683
Net investment return	(316,006)	(7,131,881)	(7,447,887)
Contributions	-	3,609,613	3,609,613
Appropriation of endowment assets for expenditure	-	(7,818,591)	(7,818,591)
Other changes			
Other gains	-	(591,681)	(591,681)
Transfer for donor restriction	-	(194,603)	(194,603)
	<u>\$ 3,066,968</u>	<u>\$ 228,349,566</u>	<u>\$ 231,416,534</u>
Endowment net assets, end of year	<u>\$ 3,066,968</u>	<u>\$ 228,349,566</u>	<u>\$ 231,416,534</u>

Note 7 - Deficit in Net Assets Without Donor Restrictions

Net assets without donor restrictions are summarized as follows:

	2019	2018
Undesignated	\$ (12,279,561)	\$ (9,957,233)
Board designated		
For endowment	2,574,732	3,066,968
For Foundation support	1,565,374	1,427,977
	\$ (8,139,455)	\$ (5,462,288)

Support for two capital projects in excess of gifts, including promises to give, has resulted in deficiencies that are reported in net assets without donor restrictions. This cumulative deficiency totaled \$9,474,945 and \$8,595,495 as of December 31, 2019 and 2018, respectively. The Foundation plans to recover these net assets without donor restrictions deficit with recorded outstanding pledges totaling approximately \$8,700,000 which have been reduced to approximately \$3,600,000 at the individual project level for discounts and allowances. In addition, the Foundation has received communication of approximately \$4,100,000 in revocable gifts designated to the two capital project funds along with any future gifts.

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Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Scholarships	\$ 5,614,064	\$ 6,231,723
Student support	942,931	835,110
USD faculty	4,004,733	3,811,748
USD academic programs	5,689,766	5,629,993
USD general support	5,498,045	5,298,622
USD buildings and equipment	8,755,028	11,872,719
Foundation support	-	177,349
	<u>30,504,567</u>	<u>33,857,264</u>
Endowments		
Subject to appropriation and expenditure for specified purpose and passage of time		
USD support	71,664,297	51,704,683
Foundation support*	6,596,037	5,784,708
	<u>78,260,334</u>	<u>57,489,391</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation		
Scholarships	107,481,848	100,957,885
Student support	7,728,584	7,677,315
USD faculty	27,212,383	27,244,121
USD academic programs	32,466,139	30,579,157
USD general support	2,873,997	2,816,810
USD buildings and equipment	131,583	131,583
Foundation operations	1,666,128	1,453,304
	<u>179,560,662</u>	<u>170,860,175</u>
Total endowments	<u>257,820,996</u>	<u>228,349,566</u>
	<u>\$ 288,325,563</u>	<u>\$ 262,206,830</u>

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

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restriction		
Current year expenditures		
Program services		
Scholarships paid	\$ 9,807,057	\$ 7,555,928
USD departmental expenses	3,640,676	3,516,639
USD building and equipment purchases/transfers	4,627,639	2,530,577
Support services		
USD fundraising	57,363	151,967
Foundation administrative fee retained (1.50% for the years ending December 31, 2019 and 2018)	3,420,144	3,344,020
Previously incurred expenditures		
Program services		
USD building and equipment purchases/transfers	-	52,409
Expiration of time restriction	96,341	209,603
Change in donor restriction	<u>222,352</u>	<u>-</u>
	<u>\$ 21,871,572</u>	<u>\$ 17,361,143</u>

Note 9 - 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 \$134,485 and \$117,792 to the plan for the years ended December 31, 2019 and 2018, respectively.

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Note 10 - Functional Allocation of Expenses

The following tables present the natural classification detail of expenses by function for the years ending December 31, 2019 and 2018:

	2019			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 9,807,057	\$ -	\$ -	\$ 9,807,057
USD departmental expenses	3,640,674	-	-	3,640,674
USD building and equipment	7,005,575	-	-	7,005,575
Staffing	-	2,193,385	1,448,188	3,641,573
Engagement	-	194,003	431,756	625,759
Fundraising programs	-	-	331,228	331,228
Travel	-	94,183	226,838	321,021
Research	-	9,772	-	9,772
Board and professional services	-	196,070	-	196,070
Computer and technology	-	376,728	31,923	408,651
Occupancy	-	101,199	119,998	221,197
Depreciation	-	83,470	85,346	168,816
Office equipment and supplies	-	60,587	61,949	122,536
Other	-	59,339	30,725	90,064
USD fundraising	-	-	57,364	57,364
Property management	-	20,813	-	20,813
	<u>\$ 20,453,306</u>	<u>\$ 3,389,549</u>	<u>\$ 2,825,315</u>	<u>\$ 26,668,170</u>
	2018			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 7,555,928	\$ -	\$ -	\$ 7,555,928
USD departmental expenses	3,516,639	-	-	3,516,639
USD building and equipment	2,530,577	-	-	2,530,577
Staffing	-	2,774,561	1,389,290	4,163,851
Engagement	-	617,964	247,416	865,380
Fundraising programs	-	-	249,651	249,651
Travel	-	296,769	208,643	505,412
Research	-	55,901	-	55,901
Campaign consultant	-	60,206	32,419	92,625
Board and professional services	-	179,317	-	179,317
Computer and technology	-	316,300	6,307	322,607
Occupancy	-	194,723	104,851	299,574
Depreciation	-	105,799	56,969	162,768
Office equipment and supplies	-	54,671	29,438	84,109
Other	-	62,941	10,842	73,783
USD fundraising	-	-	151,967	151,967
Property management	-	37,428	-	37,428
	<u>\$ 13,603,144</u>	<u>\$ 4,756,580</u>	<u>\$ 2,487,793</u>	<u>\$ 20,847,517</u>

Note 11 - 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, 2019, total payments of \$10,080,000 had been received, with the remaining \$100,000 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, 2019, approximately \$3,632,670 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:

Years Ending December 31,		
2020	\$	72,636
2021		72,636
2022		72,636
2023		24,212
		242,120
	\$	242,120

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.

During May 2019, the Foundation committed to contract buyout guarantee for coaches with the USD Department of Athletics with a maximum amount of \$1,515,000 to be funded from private sources.

Line of Credit

An unsecured line of credit totaling \$13,000,000 was established with a banking institution and has been renewed through November 2020. This line of credit has a variable interest rate, which is the 3-month LIBOR Index plus 2.5%. The line is with a banking institution that is majority owned by the family of a member of the Board of Directors.

Note 12 - Subsequent Events

Subsequent events have been evaluated through August 13, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the Foundation has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Foundation is closely monitoring its operations, investment portfolio, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Foundation's financial position is not known.

The Foundation applied for and was granted a \$507,500 loan under the Paycheck Protection Program administered by the Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for six months to one year after the funding of the loan. The Foundation is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Foundation intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.



Supplementary Information
December 31, 2019 and 2018

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, 2019 and 2018, and our report thereon dated August 13, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information shown on page 31 and 32 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 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".

Aberdeen, South Dakota
August 13, 2020

The University of South Dakota Foundation
Schedule of Funds Provided for USD Support - Unaudited
Years Ended June 30, 1996 - 2019

	<u>Scholarships</u>	<u>Other</u>	<u>Equipment Facilities</u>	<u>Total</u>
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
December 31, 2018	7,500,193	3,609,543	2,530,577	13,640,313
December 31, 2019	9,807,057	3,698,038	7,005,575	20,510,670
	<u>\$ 106,340,792</u>	<u>\$ 55,456,550</u>	<u>\$ 94,189,083</u>	<u>\$ 255,986,425</u>

The University of South Dakota Foundation
 Schedule of Funds Provided for USD Support - Unaudited
 Years Ended June 30, 1996 - 2019

	Fiscal Year(s)	Fiscal Year 1996 - 2019 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 - 2019	29,762,146
National Music Museum	2018 - 2019	3,797,489
Beacom Ellis Lab	2019	294,000
USD President - Inman House	2019	1,623,274
Total major facility projects completed		87,834,822
Other USD facility and equipment support	1996 - 2019	6,354,261
		\$ 94,189,083