



Consolidated Financial Statements  
December 31, 2021 and 2020

The University of South Dakota  
Foundation

The University of South Dakota Foundation

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December 31, 2021 and 2020

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## Independent Auditor's Report

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

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of The University of South Dakota Foundation and its controlled entities (the Organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Consolidated 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; and for 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.

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

### ***Auditor's Responsibilities of the Audit of the Consolidated Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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



Aberdeen, South Dakota  
October 26, 2022

The University of South Dakota Foundation  
Consolidated Statements of Financial Position  
December 31, 2021 and 2020

	2021	2020
Assets		
Restricted Cash and Cash Equivalents	\$ 14,876,778	\$ 13,615,168
Investments		
Money market funds	35,779	17,230
Equity securities	2,103,179	1,681,339
Equity mutual funds	125,089,327	121,157,858
Fixed income mutual funds	164,307,250	143,132,415
Equity co-mingled funds	28,252,261	30,234,847
Government bonds	954,203	601,599
All asset funds	3,863,307	4,081,426
Real estate limited partnerships	11,588,894	9,690,274
Total investments	336,194,200	310,596,988
Receivables		
Promises to give	10,441,718	13,730,492
Contributions receivable - split-interest agreements	8,022,591	8,553,044
Notes receivable	2,000,000	2,000,000
Total receivables	20,464,309	24,283,536
Operating Fixed Assets, Net of Accumulated Depreciation	2,337,138	2,404,086
Other Fixed Assets Held, Net of Accumulated Depreciation	1,253,878	1,525,079
Other Assets		
Prepaid expenses and other assets	142,296	208,284
Cash surrender value of life insurance	195,663	184,987
Total other assets	337,959	393,271
	\$ 375,464,262	\$ 352,818,128
Liabilities		
Accounts Payable and Accrued Expenses	\$ 908,493	\$ 691,194
Due to the University of South Dakota - Scholarships	5,260,737	5,309,315
Gift Annuities and Life Income Agreements	3,011,875	2,883,324
Investments Held for Others	11,673,763	11,330,486
Total liabilities	20,854,868	20,214,319
Net Assets (Deficit)		
Without Donor Restrictions	(6,640,690)	(6,586,327)
With Donor Restrictions	361,250,084	339,190,136
Total net assets	354,609,394	332,603,809
	\$ 375,464,262	\$ 352,818,128

The University of South Dakota Foundation  
Consolidated Statements of Activities  
Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains						
Gifts	\$ 24,073	\$ 16,402,988	\$ 16,427,061	\$ 13,669	\$ 26,799,877	\$ 26,813,546
Net investment return	685,683	24,076,979	24,762,662	1,187,415	43,456,364	44,643,779
Other income	1,040,738	1,191,573	2,232,311	1,454,872	1,724,821	3,179,693
	<u>1,750,494</u>	<u>41,671,540</u>	<u>43,422,034</u>	<u>2,655,956</u>	<u>71,981,062</u>	<u>74,637,018</u>
Net assets released from restrictions	19,611,592	(19,611,592)	-	19,916,489	(19,916,489)	-
Total revenue, support, and gains	<u>21,362,086</u>	<u>22,059,948</u>	<u>43,422,034</u>	<u>22,572,445</u>	<u>52,064,573</u>	<u>74,637,018</u>
Expenses						
Program services						
Scholarships	10,016,483	-	10,016,483	9,477,395	-	9,477,395
USD departmental expenses	3,464,882	-	3,464,882	3,203,330	-	3,203,330
USD building and equipment expenses	1,996,378	-	1,996,378	2,772,740	-	2,772,740
Total program services	<u>15,477,743</u>	<u>-</u>	<u>15,477,743</u>	<u>15,453,465</u>	<u>-</u>	<u>15,453,465</u>
Support services						
Fundraising	2,600,163	-	2,600,163	2,528,912	-	2,528,912
Administrative and general	3,338,543	-	3,338,543	3,036,940	-	3,036,940
Total support services	<u>5,938,706</u>	<u>-</u>	<u>5,938,706</u>	<u>5,565,852</u>	<u>-</u>	<u>5,565,852</u>
Loss on uncollectable promises to give	-	-	-	-	1,200,000	1,200,000
Total expenses	<u>21,416,449</u>	<u>-</u>	<u>21,416,449</u>	<u>21,019,317</u>	<u>1,200,000</u>	<u>22,219,317</u>
Change in Net Assets	(54,363)	22,059,948	22,005,585	1,553,128	50,864,573	52,417,701
Beginning Net Assets	<u>(6,586,327)</u>	<u>339,190,136</u>	<u>332,603,809</u>	<u>(8,139,455)</u>	<u>288,325,563</u>	<u>280,186,108</u>
Ending Net Assets	<u>\$ (6,640,690)</u>	<u>\$ 361,250,084</u>	<u>\$ 354,609,394</u>	<u>\$ (6,586,327)</u>	<u>\$ 339,190,136</u>	<u>\$ 332,603,809</u>

See Notes to Consolidated Financial Statements

The University of South Dakota Foundation  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 22,005,585	\$ 52,417,701
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	133,916	157,059
Depreciation - other fixed assets	57,196	57,196
Realized gain on investments	(5,082,451)	(16,947,533)
Unrealized gain on investments	(16,385,459)	(24,482,937)
Loss on disposal of fixed assets	(1,553)	-
Loss on uncollectable promises to give	-	1,200,000
Change in cash surrender value of life insurance	(10,676)	(8,998)
Change in value of contributions receivable - split-interest agreements	(783,668)	(1,350,124)
Change in value of gift annuities and life income agreements Restricted for long-term purposes	(207,105)	(249,417)
Gifts and revenue	(3,242,303)	(15,209,011)
Gifts other than cash	(3,761,125)	(153,963)
PPP loan forgiveness	-	(507,500)
Changes in assets and liabilities		
Promises to give, other than restricted for long-term purposes	3,309,080	(3,728,982)
Contributions receivable - split-interest agreements	1,314,121	705,440
Prepaid expenses and other assets	65,988	(29,550)
Accounts payable and accrued expenses	217,299	290,975
Due to University of South Dakota - scholarships	(48,578)	188,680
Gift annuities and life income agreements	335,656	407,737
Net Cash used for Operating Activities	(2,084,077)	(7,243,227)
Investing Activities		
Net changes in money market funds held for investment	(18,549)	21,166,537
Proceeds from sale of investments	100,436,608	462,303,160
Purchases of investments	(104,204,084)	(489,816,289)
Proceeds from sale of other fixed assets held	226,810	406,473
Purchases of operating fixed assets and other fixed assets held	(78,220)	(62,267)
Net Cash used for Investing Activities	(3,637,435)	(6,002,386)

The University of South Dakota Foundation  
Consolidated Statements of Cash Flows  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Financing Activities		
Proceeds from PPP loan	-	507,500
Proceeds from gifts and revenue restricted for long-term purposes	<u>6,983,122</u>	<u>15,371,690</u>
Net Cash from Financing Activities	<u>6,983,122</u>	<u>15,879,190</u>
Net Change in Restricted Cash and Cash Equivalents	1,261,610	2,633,577
Restricted Cash and Cash Equivalents, Beginning of Year	<u>13,615,168</u>	<u>10,981,591</u>
Restricted Cash and Cash Equivalents, End of Year	<u><u>\$ 14,876,778</u></u>	<u><u>\$ 13,615,168</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash (received) paid during the year for unrelated business income tax	\$ (18,446)	\$ (12,500)



## **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 (the Foundation); USDF, LLC (LLC); and USDF2, LLC (LLC2); (collectively, the Organization). All significant intercompany balances and transactions have been eliminated in 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 Foundation's initial investment in the airplane. The annual lease payment is reduced if the Foundation 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 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. 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 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.

### **Cash, Cash Equivalents, and Restricted Cash**

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 and realized and unrealized capital gains and losses, less external and direct internal investment expenses.

To achieve diversification 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 measurement allowed under GAAP 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 are 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 of 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 \$1,456,172 and \$1,350,223 at December 31, 2021 and 2020, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 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, 2021 and 2020.

**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 \$528,454 and \$489,362 at December 31, 2021 and 2020, 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 to 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, 2021 and 2020, 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 \$397,505 and \$438,932 as of December 31, 2021 and 2020, 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 \$4,366,403 and \$4,061,985 as of December 31, 2021 and 2020, respectively. The present value of future investment income distributions to beneficiaries is \$2,614,370 and \$2,444,392 as of December 31, 2021 and 2020, 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, an interrelated entity with the Foundation, is the stated beneficiary of these trusts rather than the Organization. The market value on these trusts as of December 31, 2021 and 2020, was \$11,475,790 and \$10,189,429, respectively. For the years ended December 31, 2021 and 2020, the Organization received income from these trusts of \$356,227 and \$357,591, respectively. Since the Foundation is financially interrelated to USD, contribution revenue from trust distributions is recognized by the Foundation in the consolidated financial statements.

### **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 \$1,515,328 and \$1,448,668 as of December 31, 2021 and 2020, respectively.

Investments held for others include amounts due to the Alumni Association of USD totaling \$1,702,085 and \$1,636,308 as of December 31, 2021 and 2020, 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. (See Note 4).

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 services activities or supporting services activities. Note 10 present the natural classification detail of expenses by function. Certain expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include (a) occupancy, depreciation, and office equipment and supplies, which are allocated on an average full-time equivalency by function basis; and (b) staff, engagement, travel, computer and technology, and others which are allocated on a mixed basis of staff function, average full-time equivalency by function basis, and actual costs incurred by function. See Note 10.

### Subsequent Events

The Organization has evaluated subsequent events as of October 26, 2022, the date which these financial statements were available to be issued.

### 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:

	2021	2020
Operating investments	\$ 1,469,083	\$ 1,006,483
Receivables		
Contributions receivable - split-interest agreements	122,408	115,832
Gift fees	-	530,000
Appropriation of expenditures on unrestricted board designated funds	191,000	192,000
Endowment spending-rate distributions and appropriations	240,000	120,100
Anticipated endowment administrative fees	4,386,000	3,780,500
	\$ 6,408,491	\$ 5,744,915

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 January 1, 2020, the Foundation's Board of Directors approved a 5% gift fee on all gifts to be assessed upon receipt of cash. Effective for gifts received on or after July 2021, the 5% gift fee was terminated.

A board-designated endowment of \$3,348,071 and \$3,576,411 as of December 31, 2021 and 2020, 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 the Board of Directors' 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 2022 and 2021 is \$940,000 and \$893,933, 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 of Directors designates a portion of any operating surplus to its operating reserve. The market value of this reserve was \$1,958,603 and \$1,998,365 as of December 31, 2021 and 2020, 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 the 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 are valued by the custodians of the securities using stated interest rates and market rate assumptions; and the investments held for others liability is determined by reference to the value of the underlying assets that are directly or indirectly observable in the marketplace. 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 Level 3 measurements.



# The University of South Dakota Foundation

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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 are not classified in the fair value hierarchy.

Subsequent to year end, the economic markets became increasingly volatile, resulting in significant unrealized losses on investments.

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

	2021				
	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
<b>Assets</b>					
Money market funds	\$ 35,779	\$ 35,779	\$ -	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,877,885	\$ 1,877,885	\$ -	\$ -	\$ -
Mid cap	180,132	180,132	-	-	-
Small cap	18,875	18,875	-	-	-
International equity	26,287	26,287	-	-	-
	<u>\$ 2,103,179</u>	<u>\$ 2,103,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 10,282,963	\$ 10,282,963	\$ -	\$ -	\$ -
Mid cap equity	13,159,654	13,159,654	-	-	-
Small cap equity	20,027,187	20,027,187	-	-	-
International equity	81,619,523	81,619,523	-	-	-
	<u>\$ 125,089,327</u>	<u>\$ 125,089,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 53,811,624	\$ 53,811,624	\$ -	\$ -	\$ -
Structured product	17,229,024	17,229,024	-	-	-
Government	19,729,552	19,729,552	-	-	-
International	8,657,288	8,657,288	-	-	-
Alternatives	33,378	33,378	-	-	-
Money market funds	64,846,384	64,846,384	-	-	-
	<u>\$ 164,307,250</u>	<u>\$ 164,307,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	\$ 28,252,261	\$ -	\$ -	\$ -	\$ 28,252,261

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	2021				
	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
Government bonds	\$ 954,203	\$ -	\$ 954,203	\$ -	\$ -
All asset funds					
Money market funds	117,164	117,164	-	-	-
Alternatives	3,746,143	-	-	-	3,746,143
	<u>\$ 3,863,307</u>	<u>\$ 117,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,746,143</u>
Real estate limited partnerships	\$ 11,588,894	\$ -	\$ -	\$ -	\$ 11,588,894
Promises to give	\$ 10,441,718	\$ -	\$ -	\$ 10,441,718	\$ -
Contributions receivable - split interest agreements	\$ 8,022,591	\$ -	\$ -	\$ 8,022,591	\$ -
Liabilities					
Investments held for others	\$ 11,673,763	\$ -	\$ 11,673,763	\$ -	\$ -
	2020				
	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	\$ 17,230	\$ 17,230	\$ -	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,550,260	\$ 1,550,260	\$ -	\$ -	\$ -
Mid cap	93,853	93,853	-	-	-
Small cap	12,057	12,057	-	-	-
International equity	25,169	25,169	-	-	-
	<u>\$ 1,681,339</u>	<u>\$ 1,681,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 16,036,620	\$ 16,036,620	\$ -	\$ -	\$ -
Mid cap equity	7,547,843	7,547,843	-	-	-
Small cap equity	13,110,177	13,110,177	-	-	-
International equity	84,463,218	84,463,218	-	-	-
	<u>\$ 121,157,858</u>	<u>\$ 121,157,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 63,993,453	\$ 63,993,453	\$ -	\$ -	\$ -
Structured product	27,351,974	27,351,974	-	-	-
Government	15,716,432	15,716,432	-	-	-
International	4,315,990	4,315,990	-	-	-
Alternatives	13,431	13,431	-	-	-
Money market funds	31,741,135	31,741,135	-	-	-
	<u>\$ 143,132,415</u>	<u>\$ 143,132,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	\$ 30,234,847	\$ -	\$ -	\$ -	\$ 30,234,847

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	2020				
	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
Government bonds	\$ 601,599	\$ -	\$ 601,599	\$ -	\$ -
All asset funds Alternatives	4,081,426	-	-	-	4,081,426
	<u>\$ 4,081,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,081,426</u>
Real estate limited partnerships	\$ 9,690,274	\$ -	\$ -	\$ -	\$ 9,690,274
Promises to give	\$ 13,730,492	\$ -	\$ -	\$ 13,730,492	\$ -
Contributions receivable - split interest agreements	\$ 8,553,044	\$ -	\$ -	\$ 8,553,044	\$ -
Liabilities					
Investments held for others	\$ 11,330,486	\$ -	\$ 11,330,486	\$ -	\$ -

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, 2021:

	Promises to Give	Contributions Receivable
Balance at December 31, 2020	\$ 13,730,492	\$ 8,553,044
Investment return, net	693,599	1,350,124
Contributions	2,034,993	-
Payments and distributions	(6,017,366)	(1,880,577)
Balance at December 31, 2021	<u>\$ 10,441,718</u>	<u>\$ 8,022,591</u>

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, 2020:

	Promises to Give	Contributions Receivable
Balance at December 31, 2019	\$ 11,210,226	\$ 7,908,360
Investment return, net	714,435	1,350,124
Contributions	18,808,155	-
Payments and distributions	(17,002,324)	(705,440)
Balance at December 31, 2020	<u>\$ 13,730,492</u>	<u>\$ 8,553,044</u>

# The University of South Dakota Foundation

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Investments in certain entities that are measured at fair value using NAV per share are as follows at December 31, 2021:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternatives	\$ 3,746,143	\$ 468,383	(2)	(2)
Private equity	28,252,261	-	Quarterly (1)	60 days
Real estate limited partnerships	<u>11,588,894</u>	<u>4,077,875</u>	(2)	(2)
	<u>\$ 43,587,298</u>	<u>\$ 4,546,258</u>		

Investments in certain entities that are measured at fair value using NAV per share as follows at December 31, 2020:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternatives	\$ 4,081,426	\$ 410,158	(2)	(2)
Private equity	30,234,847	-	Quarterly (1)	60 days
Real estate limited partnerships	<u>9,690,274</u>	<u>4,851,501</u>	(2)	(2)
	<u>\$ 44,006,547</u>	<u>\$ 5,261,659</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 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 information 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 information provided by the underlying fund manager or the general partner.

Of the total unfunded commitments as of December 31, 2021, approximately \$317,000 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:

	2021	2020
Receivable within one year	\$ 2,568,064	\$ 6,230,721
Receivable in one to five years	3,586,983	3,756,800
Receivable in periods beyond five years	12,336,135	12,486,034
Total promises to give	18,491,182	22,473,555
Adjustment to fair value	(8,049,464)	(8,743,063)
Net promises to give	\$ 10,441,718	\$ 13,730,492

Conditional promises to give as of December 31, 2021 and 2020, of approximately \$30,280,000 and \$32,400,000, respectively, consist of promises to fund various USD projects and activities and are restricted by specific criteria designated by the donor, which includes board approval from the donor organization on an annual basis. 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, 2021 and 2020, promises to give from Board members accounted for approximately 8% and 9%, respectively, of total promises to give, and contributions from Board members accounted for approximately 3% and 4% of total contributions, respectively.

**Note 5 - Notes Receivable**

As of December 31, 2021 and 2020, 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.

Management determines the allowance for uncollectible notes receivable based on its assessment of potential bad debts, the specific circumstances of the underlying receivable, and historical experience. Management has determined that the notes receivable are fully collectible and has not established a related allowance.

**Note 6 - Endowments**

The Foundation's endowment consists of 1,316 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, 2021, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,348,071	\$ 5,012,054	\$ 8,360,125
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	210,852,988	210,852,988
Accumulated investment gains	-	107,608,891	107,608,891
	\$ 3,348,071	\$ 323,473,933	\$ 326,822,004
Number of funds	3	1,313	1,316

# The University of South Dakota Foundation

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As of December 31, 2020, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,576,410	\$ 4,712,919	\$ 8,289,329
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	202,954,065	202,954,065
Accumulated investment gains	-	97,453,737	97,453,737
	\$ 3,576,410	\$ 305,120,721	\$ 308,697,131
Number of funds	3	1,294	1,297

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, 2021, funds with original gift values of \$1,014,589, fair values of \$986,583, and deficiencies of \$28,006 were reported in net assets with donor restrictions. The fair values of the funds were equal to or less than the original gift values. At December 31, 2020, funds with original gift values of \$24,349, fair values of \$24,151, and deficiencies of \$198 were reported in net assets with donor restrictions. The fair values of the funds were equal to or less 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, 2021 and 2020, 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, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,576,410	\$ 305,120,721	\$ 308,697,131
Net investment return	565,857	19,573,957	20,139,814
Contributions	-	7,129,249	7,129,249
Appropriation of endowment assets for expenditure	-	(10,143,160)	(10,143,160)
Other changes			
Other gains	-	998,970	998,970
Transfer for donor restriction	(794,196)	794,196	-
	\$ 3,348,071	\$ 323,473,933	\$ 326,822,004
Endowment net assets, end of year			

Changes in endowment net assets by fund type for the year ended December 31, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,574,732	\$ 257,820,996	\$ 260,395,728
Net investment return	1,001,678	39,185,833	40,187,511
Contributions	-	15,380,752	15,380,752
Appropriation of endowment assets for expenditure	-	(8,424,914)	(8,424,914)
Other changes			
Other gains	-	1,478,096	1,478,096
Transfer for donor restriction	-	(320,042)	(320,042)
	\$ 3,576,410	\$ 305,120,721	\$ 308,697,131
Endowment net assets, end of year			



**Note 7 - Deficit in Net Assets Without Donor Restrictions**

Net assets without donor restrictions are summarized as follows:

	2021	2020
Undesignated	\$ (13,640,043)	\$ (13,585,680)
Board designated		
For endowment	3,348,071	3,576,410
For Foundation support	3,651,282	3,422,943
	\$ (6,640,690)	\$ (6,586,327)

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 \$9,525,993 and \$9,485,087 as of December 31, 2021 and 2020, respectively. Currently the deficit is being increased due to fair value adjustments for discounts and allowances recorded against outstanding contributions receivable totaling approximately \$3,600,000 at the individual project level which will reduce the deficit over the time the receivables are collected. In addition, the Foundation has received communication of approximately \$4,200,000 in revocable gifts designated to the two capital project funds along with any future gifts.

**Note 8 - Net Assets With Donor Restrictions**

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

	2021	2020
Subject to expenditure for specified purpose		
Scholarships	\$ 6,775,001	\$ 6,769,149
Student support	1,203,379	1,106,024
USD faculty	4,086,345	3,967,243
USD academic programs	8,375,520	6,219,721
USD research	3,800	-
USD general support	6,634,201	6,507,761
USD buildings and equipment	10,697,905	9,499,515
	37,776,151	34,069,413
Endowments		
Subject to appropriation and expenditure for specified purpose and passage of time		
USD support	104,987,250	94,892,565
Foundation support	7,633,695	7,274,092
	112,620,945	102,166,657
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation		
Scholarships	135,064,519	128,223,919
Student support	7,821,587	7,764,644
USD faculty	28,294,061	27,598,761
USD academic programs	34,863,171	34,685,612
USD research	100,635	-
USD general support	2,877,753	2,857,295
USD buildings and equipment	131,583	131,583
Foundation operations	1,699,679	1,692,252
	210,852,988	202,954,066
Total endowments	323,473,933	305,120,723
	\$ 361,250,084	\$ 339,190,136

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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, 2021 and 2020:

	2021	2020
Satisfaction of purpose restriction		
Current year expenditures		
Program services		
Scholarships paid	\$ 10,016,483	\$ 9,477,395
USD departmental expenses	3,467,602	3,203,337
USD building and equipment purchases/transfers	1,958,556	2,762,595
Support services		
USD fundraising	32,088	8,425
Gift fee (5% for 2021)	426,528	748,625
Foundation administrative fee retained (1.50% for the years ending December 31, 2021 and 2020)	4,510,335	3,686,019
Change in donor restriction	(800,000)	30,093
	\$ 19,611,592	\$ 19,916,489

**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 \$151,602 and \$146,968 to the plan for the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

	2021			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 10,016,483	\$ -	\$ -	\$ 10,016,483
USD departmental expenses	3,464,882	-	-	3,464,882
USD building and equipment	1,996,378	-	-	1,996,378
Staffing	-	2,580,609	1,624,049	4,204,658
Engagement	-	23,457	215,716	239,173
Fundraising programs	-	-	390,523	390,523
Travel	-	31,012	79,931	110,943
Research	-	9,300	-	9,300
Board and professional services	-	242,716	-	242,716
Computer and technology	-	224,800	9,785	234,585
Occupancy	-	103,896	122,755	226,651
Depreciation	-	66,214	67,702	133,916
Office equipment and supplies	-	52,958	57,614	110,572
USD fundraising	-	-	32,088	32,088
Property management	-	3,581	-	3,581
	<u>\$ 15,477,743</u>	<u>\$ 3,338,543</u>	<u>\$ 2,600,163</u>	<u>\$ 21,416,449</u>

	2020			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 9,477,395	\$ -	\$ -	\$ 9,477,395
USD departmental expenses	3,203,330	-	-	3,203,330
USD building and equipment	2,772,740	-	-	2,772,740
Staffing	-	2,102,055	1,410,596	3,512,651
Engagement	-	232,617	218,909	451,526
Fundraising programs	-	-	588,696	588,696
Travel	-	20,530	56,909	77,439
Research	-	12,894	-	12,894
Board and professional services	-	211,287	-	211,287
Computer and technology	-	223,703	6,358	230,061
Occupancy	-	104,978	122,456	227,434
Depreciation	-	77,657	79,402	157,059
Office equipment and supplies	-	36,344	37,161	73,505
USD fundraising	-	-	8,425	8,425
Property management	-	14,875	-	14,875
	<u>\$ 15,453,465</u>	<u>\$ 3,036,940</u>	<u>\$ 2,528,912</u>	<u>\$ 21,019,317</u>

**Note 11 - Commitments and Contingencies**

**Conditional Gift**

In 2000, the Foundation 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, 2021, total payments of \$10,100,000 have been received, with the remaining \$80,000 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, 2021, approximately \$2,974,004 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,	
2022	\$ 72,636
2023	24,212
	\$ 96,848

**Commitments**

During 2020, the Foundation revised the commitment for contract buyout guarantee for coaches with the USD Department of Athletics to a maximum amount of \$1,375,000 to be funded from private sources. There were no changes to this amount in 2021.

**Line of Credit**

An unsecured line of credit totaling \$13,000,000 was established with a banking institution and has been renewed through November 2022. This line of credit has a variable interest rate, which is 2.55% until January 2022, at which point the interest rate may become variable. There were no draws on the line of credit during 2021 or 2020. The line is with a banking institution that is majority owned by the family of a member of the Board of Directors.



Supplementary Information  
December 31, 2021 and 2020

# 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, 2021 and 2020, and have issued our report thereon dated October 26, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole.

The supplementary information on pages 29 and 30 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. We have not audited the information and we express no opinion nor any assurance on it.

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

Aberdeen, South Dakota  
October 26, 2022

The University of South Dakota Foundation  
Schedule of Funds Provided for USD Support - Unaudited  
Years Ended June 30, 1996 - 2021

	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
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
December 31, 2020	9,477,395	3,211,761	2,772,740	15,461,896
December 31, 2021	10,016,483	3,496,970	1,996,378	15,509,831
	<u>\$ 125,834,670</u>	<u>\$ 62,165,281</u>	<u>\$ 98,958,201</u>	<u>\$ 286,958,152</u>



The University of South Dakota Foundation  
Schedule of Funds Provided for USD Support - Unaudited  
Years Ended June 30, 1996 - 2021

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	Fiscal Year(s)	Fiscal Year 1996 - 2021 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
USD President - Inman House	2019	1,623,274
Coyote Athletic Complex	2012 - 2021	32,560,237
National Music Museum	2018 - 2021	4,478,482
Beacom Ellis Lab	2019 - 2020	424,934
Parry Center	2020	235,682
Founder's Park (President's Garden)	2021	469,608
Total major facility projects completed		92,150,130
Other USD facility and equipment support	1996 - 2021	6,770,249
		\$ 98,920,379