



Consolidated Financial Statements
December 31, 2023 and 2022

The University of South Dakota
Foundation

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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, 2023 and 2022, 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, 2023 and 2022, 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.

Correction of an Error

As discussed in Note 14 to the consolidated financial statements, certain errors resulting in an overstatement of without donor restricted net assets of \$4,520,400 and an understatement of with donor restricted net assets of \$4,520,400 as of and for the year ended December 31, 2022, were discovered by management of The University of South Dakota Foundation during the current year. Accordingly, amounts recorded for with and without donor restricted net assets have been restated in the 2022 financial statements now presented, and an adjustment made to net assets at December 31, 2022, to correct the error. Our opinion was not modified with respect to this matter.

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 11, 2024

The University of South Dakota Foundation

Consolidated Statements of Financial Position

December 31, 2023 and 2022

	2023	2022 (Restated)
Assets		
Restricted Cash and Cash Equivalents	\$ 7,432,895	\$ 15,630,359
Investments		
Money market funds	45,404	35,317
Certificates of deposit	462,881	-
Equity securities	2,840,542	1,734,472
Equity mutual funds	123,312,316	106,724,421
Fixed income mutual funds	152,188,653	151,061,006
Equity co-mingled funds	30,163,372	23,266,703
Government bonds	760,539	848,402
All asset funds	2,648,361	3,111,300
Real estate limited partnerships	8,172,295	7,802,486
Total investments	<u>320,594,363</u>	<u>294,584,107</u>
Receivables		
Promises to give	11,657,190	11,267,738
Contributions receivable - split-interest agreements	7,017,364	6,644,871
Notes receivable	1,040,397	2,000,000
Total receivables	<u>19,714,951</u>	<u>19,912,609</u>
Operating Fixed Assets, Net of Accumulated Depreciation	2,158,206	2,206,254
Other Fixed Assets Held, Net of Accumulated Depreciation	3,626,139	2,083,335
Other Assets		
Prepaid expenses and other assets	385,676	277,378
Cash surrender value of life insurance	227,311	216,688
Operating right-of-use assets	670,616	70,760
Total other assets	<u>1,283,603</u>	<u>564,826</u>
	<u>\$ 354,810,157</u>	<u>\$ 334,981,490</u>
Liabilities		
Accounts Payable and Accrued Expenses	\$ 922,897	\$ 1,140,438
Due to the University of South Dakota - Scholarships	5,741,221	5,686,374
Gift Annuities and Life Income Agreements	2,613,375	2,400,927
Investments Held for Others	8,270,259	8,756,301
Lease Liability	670,616	70,760
Total liabilities	<u>18,218,368</u>	<u>18,054,800</u>
Net Assets (Deficit)		
Without donor restrictions	(12,353,595)	(13,195,977)
With donor restrictions	348,945,384	330,122,667
Total net assets	<u>336,591,789</u>	<u>316,926,690</u>
	<u>\$ 354,810,157</u>	<u>\$ 334,981,490</u>

The University of South Dakota Foundation
Consolidated Statements of Activities
Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions (Restated)	With Donor Restrictions (Restated)	Total
Revenue, Support, and Gains						
Gifts	\$ 98,214	\$ 14,859,752	\$ 14,957,966	\$ 27,016	\$ 13,676,790	\$ 13,703,806
Gifts in kind	-	1,898,133	1,898,133	-	191,283	191,283
Contribution from acquiring Alumni Association	-	-	-	45,728	1,410,461	1,456,189
Net investment return	1,079,183	30,588,553	31,667,736	(262,650)	(27,907,899)	(28,170,549)
Other income	1,219,446	1,222,152	2,441,598	1,100,331	(880,849)	219,482
	<u>2,396,843</u>	<u>48,568,590</u>	<u>50,965,433</u>	<u>910,425</u>	<u>(13,510,214)</u>	<u>(12,599,789)</u>
Net assets released from restrictions	<u>29,745,873</u>	<u>(29,745,873)</u>	<u>-</u>	<u>19,965,553</u>	<u>(19,965,553)</u>	<u>-</u>
Total revenue, support, and gains	<u>32,142,716</u>	<u>18,822,717</u>	<u>50,965,433</u>	<u>20,875,978</u>	<u>(33,475,767)</u>	<u>(12,599,789)</u>
Expenses						
Program services						
Scholarships	11,092,663	-	11,092,663	10,765,318	-	10,765,318
USD departmental expenses	5,997,462	-	5,997,462	3,636,566	-	3,636,566
USD building and equipment expenses	7,754,711	-	7,754,711	4,560,019	-	4,560,019
Total program services	<u>24,844,836</u>	<u>-</u>	<u>24,844,836</u>	<u>18,961,903</u>	<u>-</u>	<u>18,961,903</u>
Support services						
Fundraising	3,382,970	-	3,382,970	3,730,101	-	3,730,101
Administrative and general	3,072,528	-	3,072,528	2,390,911	-	2,390,911
Total support services	<u>6,455,498</u>	<u>-</u>	<u>6,455,498</u>	<u>6,121,012</u>	<u>-</u>	<u>6,121,012</u>
Total expenses	<u>31,300,334</u>	<u>-</u>	<u>31,300,334</u>	<u>25,082,915</u>	<u>-</u>	<u>25,082,915</u>
Change in Net Assets	842,382	18,822,717	19,665,099	(4,206,937)	(33,475,767)	(37,682,704)
Beginning Net Assets	<u>(13,195,977)</u>	<u>330,122,667</u>	<u>316,926,690</u>	<u>(8,989,040)</u>	<u>363,598,434</u>	<u>354,609,394</u>
Ending Net Assets	<u>\$ (12,353,595)</u>	<u>\$ 348,945,384</u>	<u>\$ 336,591,789</u>	<u>\$ (13,195,977)</u>	<u>\$ 330,122,667</u>	<u>\$ 316,926,690</u>

See Notes to Consolidated Financial Statements

The University of South Dakota Foundation

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ 19,665,099	\$ (37,682,704)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	123,561	130,884
Depreciation - other fixed assets	57,196	57,197
Realized gain on investments	(563,201)	(3,454,067)
Unrealized loss (gain) on investments	(22,217,220)	37,439,411
Loss on disposal of fixed assets	36,290	-
Change in cash surrender value of life insurance	(10,623)	(21,025)
Change in value of contributions receivable - split-interest agreements	(776,146)	920,755
Change in value of gift annuities and life income agreements	(141,850)	398,356
Restricted for long-term purposes:		
Gifts and revenue	(6,320,370)	(3,885,840)
Gifts other than cash	(1,893,755)	(88,295)
Changes in assets and liabilities:		
Promises to give, other than restricted for long-term purposes	39,712	(965,458)
Contributions receivable - split-interest agreements	403,653	456,965
Prepaid expenses and other assets	(108,298)	(135,082)
Accounts payable and accrued expenses	(217,541)	231,945
Due to University of South Dakota - scholarships	54,847	425,637
Gift annuities and life income agreements	354,298	(1,009,304)
Net Cash used for Operating Activities	(11,514,348)	(7,180,625)
Investing Activities		
Principal payment received on note receivable	959,603	-
Net changes in money market funds held for investment	(10,087)	462
Proceeds from sale of investments	22,708,802	55,261,006
Purchases of investments	(26,414,592)	(50,554,181)
Purchases of operating fixed assets and other fixed assets held	(111,803)	(886,654)
Net Cash (used for) from Investing Activities	(2,868,077)	3,820,633
Financing Activities		
Proceeds from draw on line of credit	3,800,000	-
Payments on line of credit	(3,800,000)	-
Proceeds from gifts and revenue restricted for long-term purposes	6,184,961	4,113,573
Net Cash from Financing Activities	6,184,961	4,113,573
Net Change in Restricted Cash and Cash Equivalents	(8,197,464)	753,581
Restricted Cash and Cash Equivalents, Beginning of Year	15,630,359	14,876,778
Restricted Cash and Cash Equivalents, End of Year	\$ 7,432,895	\$ 15,630,359
Supplemental Disclosure of Cash Flow Information		
Cash (received) paid during the year for unrelated business income tax	\$ (6,397)	\$ (8,733)
Cash paid for interest	48,029	-
Supplemental Schedule of Non-Cash Investing Activities		
Acquisition of investments of the Alumni Association of USD	\$ -	\$ 1,456,189
Right-of-use assets acquired under operating lease	642,716	-

See Notes to Consolidated Financial Statements

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. During 2022, the Alumni Association of USD was unincorporated, and the net assets were transferred to the Foundation.

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 consolidated 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 consolidated 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 creditworthy. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023 and 2022, the Organization had approximately \$6,241,154 and \$12,344,044, respectively, in excess of FDIC-insured limits including uninsured investments in money market mutual funds. To date, no losses have been experienced in any of 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 (external investment pools). 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 of the external investment pools 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 and Right-To-Use 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 \$1,342,336 and \$1,271,836 at December 31, 2023 and 2022, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Right-to-use leased assets are recognized at the lease commencement date and represent the Organization's right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Operating right-to-use leased assets are amortized over the lease term using the straight-line method. The amortization periods vary from 3 to 10 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, 2023 and 2022.

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 \$660,951 and \$603,755 at December 31, 2023 and 2022, 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, 2023 and 2022, 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 \$429,904 and \$376,858 as of December 31, 2023 and 2022, 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 \$3,785,115 and \$3,474,061 as of December 31, 2023 and 2022, respectively. The present value of future investment income distributions to beneficiaries is \$2,183,471 and \$2,024,069 as of December 31, 2023 and 2022, 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, 2023 and 2022, was \$10,683,242 and \$9,299,401, respectively. For the years ended December 31, 2023 and 2022, the Organization received income from these trusts of \$373,233 and \$381,688, 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 \$1,422,697 and \$1,325,380 as of December 31, 2023 and 2022, respectively.

The Alumni Association of USD was a separately incorporated 501(c)(3) organization with the Foundation Board of Directors acting as the fiscal agent and had fiduciary responsibility for the assets of the Alumni Association of USD and the performance and oversight of its operations. On October 21, 2022, the Foundation Board of Directors approved to unincorporate the Alumni Association of USD and transfer the net assets into the Organization. The amount transferred into the Organization is recognized as a contribution on the consolidated statement of activities in 2022.

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 restriction 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 with donor restrictions support or without 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 11 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 11.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported change in net assets or net assets.

Subsequent Events

The Organization has evaluated subsequent events as of October 11, 2024, 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:

	<u>2023</u>	<u>2022</u>
Operating investments	\$ 1,187,818	\$ 1,169,889
Contributions receivable - split-interest agreements	104,729	98,027
Appropriation of expenditures on unrestricted board-designated funds	178,000	152,000
Endowment spending-rate distributions and appropriations	208,000	211,000
Anticipated endowment administrative fees	<u>3,881,000</u>	<u>3,909,000</u>
	<u>\$ 5,559,547</u>	<u>\$ 5,539,916</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.

A board-designated endowment of \$3,401,013 and \$2,922,172 as of December 31, 2023 and 2022, respectively, is subject to an annual spending rate of approximately 4.0 percent as described in Note 7. 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 2024 and 2023 is \$806,000 and \$940,000, respectively.

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit 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 \$1,597,241 and \$1,524,597 as of December 31, 2023 and 2022, 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 composed 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.

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Notes to Consolidated Financial Statements

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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.

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:

	2023				
	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	\$ 45,404	\$ 45,404	\$ -	\$ -	\$ -
Certificates of deposit	462,881	-	462,881	-	-
	<u>\$ 508,285</u>	<u>\$ 45,404</u>	<u>\$ 462,881</u>	<u>\$ -</u>	<u>\$ -</u>
Equity securities					
Domestic equity					
Large cap	\$ 2,776,467	\$ 2,776,467	\$ -	\$ -	\$ -
Mid cap	60,249	60,249	-	-	-
Small cap	3,826	3,826	-	-	-
	<u>\$ 2,840,542</u>	<u>\$ 2,840,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 17,648,699	\$ 17,648,699	\$ -	\$ -	\$ -
Mid cap equity	18,864,472	18,864,472	-	-	-
Small cap equity	5,104,321	5,104,321	-	-	-
International equity	81,694,824	81,694,824	-	-	-
	<u>\$ 123,312,316</u>	<u>\$ 123,312,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 37,017,229	\$ 37,017,229	\$ -	\$ -	\$ -
Structured product	27,072,131	27,072,131	-	-	-
Government	21,002,313	21,002,313	-	-	-
International	4,321,794	4,321,794	-	-	-
Alternatives	16,195,728	16,195,728	-	-	-
Money market funds	46,579,458	46,579,458	-	-	-
	<u>\$ 152,188,653</u>	<u>\$ 152,188,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	\$ 30,163,372	\$ -	\$ -	\$ -	\$ 30,163,372
Government bonds					
	\$ 760,539	\$ -	\$ 760,539	\$ -	\$ -
All asset funds					
Money market funds	\$ 68,490	\$ 68,490	\$ -	\$ -	\$ -
Alternatives	2,579,871	-	-	-	2,579,871
	<u>\$ 2,648,361</u>	<u>\$ 68,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,579,871</u>
Real estate limited partnerships					
	\$ 8,172,295	\$ -	\$ -	\$ -	\$ 8,172,295
Promises to give					
Contributions receivable	\$ 11,657,190	\$ -	\$ -	\$ 11,657,190	\$ -
- split-interest agreements	7,017,364	-	-	7,017,364	-
	<u>\$ 18,674,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,674,554</u>	<u>\$ -</u>
Liabilities					
Investments held for others	\$ 8,270,259	\$ -	\$ 8,270,259	\$ -	\$ -

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

	2022				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)	
Assets					
Money market funds	\$ 35,317	\$ 35,317	\$ -	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,553,900	\$ 1,553,900	\$ -	\$ -	\$ -
Mid cap	132,749	132,749	-	-	-
Small cap	20,815	20,815	-	-	-
International equity	27,008	27,008	-	-	-
	<u>\$ 1,734,472</u>	<u>\$ 1,734,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 12,115,153	\$ 12,115,153	\$ -	\$ -	\$ -
Mid cap equity	16,686,061	16,686,061	-	-	-
Small cap equity	6,408,368	6,408,368	-	-	-
International equity	71,514,839	71,514,839	-	-	-
	<u>\$ 106,724,421</u>	<u>\$ 106,724,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed income mutual funds					
Corporate	\$ 46,028,421	\$ 46,028,421	\$ -	\$ -	\$ -
Structured product	27,268,941	27,268,941	-	-	-
Government	23,239,684	23,239,684	-	-	-
International	2,254,593	2,254,593	-	-	-
Alternatives	678,580	678,580	-	-	-
Money market funds	51,590,787	51,590,787	-	-	-
	<u>\$ 151,061,006</u>	<u>\$ 151,061,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity co-mingled funds					
Private equity	\$ 23,266,703	\$ -	\$ -	\$ -	\$ 23,266,703
Government bonds					
	\$ 848,402	\$ -	\$ 848,402	\$ -	\$ -
All asset funds					
Money market funds	\$ 65,870	\$ 65,870	\$ -	\$ -	\$ -
Alternatives	3,045,430	-	-	-	3,045,430
	<u>\$ 3,111,300</u>	<u>\$ 65,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,045,430</u>
Real estate limited partnerships					
	\$ 7,802,486	\$ -	\$ -	\$ -	\$ 7,802,486
Promises to give					
	\$ 11,267,738	\$ -	\$ -	\$ 11,267,738	\$ -
Contributions receivable					
- split-interest agreements	\$ 6,644,871	\$ -	\$ -	\$ 6,644,871	\$ -
Liabilities					
Investments held for others	\$ 8,756,301	\$ -	\$ 8,756,301	\$ -	\$ -

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December 31, 2023 and 2022

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, 2023:

	Promises to Give	Contributions Receivable
Balance at December 31, 2022	\$ 11,267,738	\$ 6,644,871
Change in fair value	198,036	776,146
Contributions	3,644,580	-
Payments and distributions	<u>(3,453,164)</u>	<u>(403,653)</u>
Balance at December 31, 2023	<u>\$ 11,657,190</u>	<u>\$ 7,017,364</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, 2022:

	Promises to Give	Contributions Receivable
Balance at December 31, 2021	\$ 10,441,718	\$ 8,022,591
Change in fair value	(3,071,244)	(920,755)
Contributions	6,638,180	-
Payments and distributions	<u>(2,740,916)</u>	<u>(456,965)</u>
Balance at December 31, 2022	<u>\$ 11,267,738</u>	<u>\$ 6,644,871</u>

Investments in certain entities that are measured at fair value using NAV per share are as follows at December 31, 2023:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternatives	\$ 2,579,871	\$ 461,147	(2)	(2)
Private equity	30,163,372	-	Quarterly (1)	60 days
Real estate limited partnerships	<u>8,172,295</u>	<u>3,091,758</u>	(2)	(2)
	<u>\$ 40,915,538</u>	<u>\$ 3,552,905</u>		

Investments in certain entities that are measured at fair value using NAV per share as follows at December 31, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternatives	\$ 3,045,430	\$ 467,139	(2)	(2)
Private equity	23,266,703	-	Quarterly (1)	60 days
Real estate limited partnerships	<u>7,802,486</u>	<u>4,039,112</u>	(2)	(2)
	<u>\$ 34,114,619</u>	<u>\$ 4,506,251</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, 2023, approximately \$52,000 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:

	<u>2023</u>	<u>2022</u>
Receivable within one year	\$ 2,302,953	\$ 4,128,079
Receivable in one to five years	9,191,789	6,464,520
Receivable in periods beyond five years	<u>11,085,120</u>	<u>11,795,847</u>
Total promises to give	22,579,862	22,388,446
Adjustment to fair value	<u>(10,922,672)</u>	<u>(11,120,708)</u>
Net promises to give	<u>\$ 11,657,190</u>	<u>\$ 11,267,738</u>

Conditional promises to give as of December 31, 2023 and 2022, approximately \$26,630,000 and \$28,150,000, 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, 2023 and 2022, promises to give from Board members accounted for approximately 9% and 9%, respectively, of total promises to give, and contributions from Board members accounted for approximately 6% and 7% of total contributions, respectively.

Note 5 - Notes Receivable

The Foundation has recorded a note receivable in the amount 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. During 2023, a payment of \$959,603 was received and the term of the note was extended to mature on December 31, 2028. Interest remains payable quarterly at 2.5% over the remaining term of the note. Outstanding principal balance at December 31, 2023 and 2022, was \$1,040,397 and \$2,000,000, respectively.

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 - Operating Leases

The Organization leases office space, vehicles and office equipment under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2033. The agreements generally require the Organization to pay real estate taxes, insurance and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease; or, if the implicit rate is not readily determinable from the lease, then the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. No significant short-term lease activity was present during the years ended December 31, 2023 and 2022.

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Total lease costs for the years ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 88,198	\$ 120,072

The following summarizes the supplemental cash flow information for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 88,198	\$ 120,072

The following summarizes the weighted-average remaining lease term and weight-average discount rate at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term:		
Operating leases	9.20 Years	1.20 Years
Weighted-average discount rate:		
Operating leases	7.79%	4.83%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2023.

2024	\$ 99,108
2025	97,908
2026	100,088
2027	102,316
2028	102,810
Thereafter	<u>456,543</u>
Total lease payments	958,773
Less interest	<u>(288,157)</u>
Present value of lease liabilities	<u><u>\$ 670,616</u></u>

Note 7 - Endowments

The Foundation's endowment consists of 1,456 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, 2023, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated Endowment Funds	\$ 3,401,413	\$ 7,108,386	\$ 10,509,799
Donor-restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	226,691,064	226,691,064
Accumulated investment gains	-	80,437,161	80,437,161
	<u>\$ 3,401,413</u>	<u>\$ 314,236,611</u>	<u>\$ 317,638,024</u>
Number of Funds	<u>3</u>	<u>1,453</u>	<u>1,456</u>

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

As of December 31, 2022, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated Endowment Funds	\$ 2,922,172	\$ 4,430,902	\$ 7,353,074
Donor-restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	217,732,026	217,732,026
Accumulated investment gains	-	64,205,650	64,205,650
	\$ 2,922,172	\$ 286,368,578	\$ 289,290,750
Number of Funds	3	1,389	1,392

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, 2023, funds with original gift values of \$4,772,107, fair values of \$4,450,132, and deficiencies of \$321,975 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, 2022, funds with original gift values of \$23,800,689, fair values of \$22,936,813, and deficiencies of \$863,876 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.

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, 2023 and 2022, 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.

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Notes to Consolidated Financial Statements

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Changes in endowment net assets by fund type for the year ended December 31, 2023, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 2,922,172	\$ 286,368,578	\$ 289,290,750
Net Investment Return	479,241	26,294,225	26,773,466
Contributions	-	8,320,664	8,320,664
Appropriation of Endowment Assets for Expenditure	-	(9,766,812)	(9,766,812)
Other Changes			
Other gains	-	903,450	903,450
Transfer for donor restriction	-	2,116,506	2,116,506
Endowment Net Assets, End of Year	<u>\$ 3,401,413</u>	<u>\$ 314,236,611</u>	<u>\$ 317,638,024</u>

Changes in endowment net assets by fund type for the year ended December 31, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 3,348,071	\$ 323,473,933	\$ 326,822,004
Net Investment Return	(508,082)	(32,811,513)	(33,319,595)
Contributions	-	5,371,064	5,371,064
Appropriation of Endowment Assets for Expenditure	-	(10,623,322)	(10,623,322)
Other Changes			
Other gains	96,140	(1,266,155)	(1,170,015)
Transfer for donor restriction	(13,957)	2,224,571	2,210,614
Endowment Net Assets, End of Year	<u>\$ 2,922,172</u>	<u>\$ 286,368,578</u>	<u>\$ 289,290,750</u>

Note 8 - Deficit in Net Assets Without Donor Restrictions

Net assets without donor restrictions are summarized as follows:

	2023	2022 (Restated)
Undesignated	\$ (18,807,884)	\$ (19,278,570)
Board-designated		
For endowment	3,401,413	2,922,172
For Foundation support	3,052,876	3,160,421
	<u>\$ (12,353,595)</u>	<u>\$ (13,195,977)</u>

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 \$11,874,483 and \$10,800,387 as of December 31, 2023 and 2022, respectively. Currently the deficit is being increased as additional expenses are being paid on projects which do not have offsetting gifts. The Foundation has received communication of approximately \$4,100,000 in revocable gifts designated to the two capital project funds that will be used to reduce this deficit along with any future gifts.

Support for two scholarship 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 \$4,200,264 and \$4,520,400 as of December 31, 2023 and 2022, respectively. The Foundation has received communication of approximately \$3,865,950 in revocable gifts designated to the two scholarship project funds that will be used to reduce this deficit along with any future gifts.

Note 9 - Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u> (Restated)
Subject to Expenditure for Specified Purpose		
Scholarships	\$ 7,153,294	\$ 10,743,721
Student support	1,171,479	1,188,520
USD faculty	4,114,835	4,477,851
USD academic programs	9,851,381	9,799,829
USD research	270,894	3,505
USD general support	4,609,426	5,812,850
USD buildings and equipment	<u>7,537,464</u>	<u>11,727,813</u>
	<u>34,708,773</u>	<u>43,754,089</u>
Endowments		
Subject to appropriation and expenditure for specified purpose and passage of time		
USD support	82,097,391	63,466,842
Foundation support	<u>5,448,156</u>	<u>5,169,710</u>
	<u>87,545,547</u>	<u>68,636,552</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation		
Scholarships	149,079,007	140,942,513
Student support	7,965,417	7,863,355
USD faculty	29,310,656	28,941,052
USD academic programs	35,542,877	35,168,574
USD research	101,635	101,635
USD general support	2,919,812	2,929,670
USD buildings and equipment	131,583	131,583
Foundation operations	<u>1,640,077</u>	<u>1,653,644</u>
	<u>226,691,064</u>	<u>217,732,026</u>
Total endowments	<u>314,236,611</u>	<u>286,368,578</u>
	<u>\$ 348,945,384</u>	<u>\$ 330,122,667</u>

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u> (Restated)
Satisfaction of Purpose Restriction		
Current year expenditures		
Program services		
Scholarships paid	\$ 11,412,799	\$ 8,592,970
USD departmental expenses	5,997,462	3,574,066
USD building and equipment purchases/transfers	6,680,615	4,560,019
Support services		
USD fundraising	2,263	7,880
Foundation administrative fee retained (1.50% for the years ending December 31, 2023 and 2022)	4,228,451	4,456,069
Change in Donor Restriction	<u>1,424,283</u>	<u>(1,225,451)</u>
	<u>\$ 29,745,873</u>	<u>\$ 19,965,553</u>

Note 10 - 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 \$138,839 and \$136,111 to the plan for the years ended December 31, 2023 and 2022, respectively.

Note 11 - Functional Allocation of Expenses

The following tables present the natural classification detail of expenses by function for the years ending December 31, 2023 and 2022:

	2023			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 11,092,663	\$ -	\$ -	\$ 11,092,663
USD departmental expenses	5,997,462	-	-	5,997,462
USD building and equipment	7,754,711	-	-	7,754,711
Staffing	-	1,905,093	2,059,617	3,964,710
Engagement	-	138,875	311,998	450,873
Fundraising programs	-	-	564,015	564,015
Travel	-	68,951	241,865	310,816
Research	-	5,992	-	5,992
Board and professional services	-	452,007	-	452,007
Computer and technology	-	185,370	-	185,370
Occupancy	-	112,712	133,664	246,376
Depreciation	-	61,094	62,467	123,561
Office equipment and supplies	-	56,964	7,081	64,045
USD fundraising	-	-	2,263	2,263
Property management	-	85,470	-	85,470
	<u>\$ 24,844,836</u>	<u>\$ 3,072,528</u>	<u>\$ 3,382,970</u>	<u>\$ 31,300,334</u>

	2022			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 10,765,318	\$ -	\$ -	\$ 10,765,318
USD departmental expenses	3,636,566	-	-	3,636,566
USD building and equipment	4,560,019	-	-	4,560,019
Staffing	-	1,200,070	2,577,027	3,777,097
Engagement	-	299,438	212,784	512,222
Fundraising programs	-	-	349,952	349,952
Travel	-	33,344	235,701	269,045
Research	-	11,350	-	11,350
Board and professional services	-	349,819	-	349,819
Computer and technology	-	199,244	81,283	280,527
Occupancy	-	98,890	117,637	216,527
Depreciation	-	64,715	66,169	130,884
Office equipment and supplies	-	63,853	81,668	145,521
USD fundraising	-	-	7,880	7,880
Property management	-	70,188	-	70,188
	<u>\$ 18,961,903</u>	<u>\$ 2,390,911</u>	<u>\$ 3,730,101</u>	<u>\$ 25,082,915</u>

Note 12 - 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, 2023, total payments of \$10,120,000 have been received, with the remaining \$60,000 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, 2023, approximately \$2,315,338 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.

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 2023; however, the contract commitment has been extended to June 30, 2026.

Line of Credit

An unsecured line of credit totaling \$13,000,000 was established with a banking institution and has been renewed through November 2024. The line of credit has an interest rate of 7.81% until January 15, 2024, at which point the interest rate may become variable. During 2023, there was a \$3,800,000 draw on the line of credit and a payment of \$3,800,000 plus interest in the amount of \$48,209. The outstanding balance on the line of credit at December 31, 2023, was \$0. There were no draws on the line of credit during 2022. The line of credit is with a banking institution that is majority owned by the family of a member of the Board of Directors.

Note 13 - Acquisition of the Alumni Association of USD

The Foundation acquired the Alumni Association of USD (the Association) effective October 21, 2022. The Foundation previously held the investments for the Association as assets held for others. The Foundation assumed those investments of \$1,456,189, which was the fair value of the investments as of the acquisition date. There was no consideration exchanged as part of the acquisition and an implicit contribution of \$1,456,189 was recorded in the statement of activities for the year ended December 31, 2022.

Note 14 - Restatement for Correction of Error

During 2023, the Organization identified misstatements within the 2022 financial statements related to an error wherein a deficit in a scholarship project account was accounted for within the with donor restricted net assets account, when such deficit should, instead, be to be reported in the without donor restricted net assets account. The Organization restated its previously issued financial statements to appropriately reflect the correction of error on January 1, 2022.

The following is a summary of the effects of the restatement in the Foundation's December 31, 2022, consolidated statement of net position:

	<u>As Previously Reported</u>	<u>Restatement for Correction of Error</u>	<u>As Restated</u>
As of December 31, 2022			
Net Assets (Deficit)			
Without donor restrictions	\$ (8,675,577)	\$ (4,520,400)	\$ (13,195,977)
With donor restrictions	325,602,267	4,520,400	330,122,667

The following is a summary of the effects of the restatement in the Foundation's December 31, 2022, consolidated statement of activities:

	<u>As Previously Reported</u>	<u>Restatement for Correction of Error</u>	<u>As Restated</u>
Year ended December 31, 2022			
Revenue, Support, and Gains			
Net assets released from restrictions			
Without donor restrictions	\$ 22,137,603	\$ (2,172,050)	\$ 19,965,553
With donor restrictions	(22,137,603)	2,172,050	(19,965,553)
Total Revenue, Support and Gains			
Without donor restrictions	23,048,028	(2,172,050)	20,875,978
With donor restrictions	(35,647,817)	2,172,050	(33,475,767)
Change in Net Assets			
Without donor restrictions	(2,034,887)	(2,172,050)	(4,206,937)
With donor restrictions	(35,647,817)	2,172,050	(33,475,767)
Beginning Net Assets			
Without donor restrictions	(6,640,690)	(2,348,350)	(8,989,040)
With donor restrictions	361,250,084	2,348,350	363,598,434
Ending Net Assets			
Without donor restrictions	(8,675,577)	(4,520,400)	(13,195,977)
With donor restrictions	325,602,267	4,520,400	330,122,667



Supplementary Information
December 31, 2023 and 2022

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, 2023 and 2022, and have issued our report thereon dated October 11, 2024, 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 11, 2024

The University of South Dakota Foundation
Schedule of Funds Provided for USD Support - Unaudited
Years Ended June 30, 1996 - 2023

	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
December 31, 2022	10,765,318	3,644,446	4,560,019	18,969,783
December 31, 2023	11,092,663	5,999,725	7,754,711	24,847,099
	<u>\$ 147,692,651</u>	<u>\$ 71,809,452</u>	<u>\$ 111,272,931</u>	<u>\$ 330,775,034</u>

The University of South Dakota Foundation
Schedule of Funds Provided for USD Support - Unaudited
Years Ended June 30, 1996 - 2023

	Fiscal Year(s)	Fiscal Year 1996 - 2023 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 - 2023	35,413,745
National Music Museum	2018 - 2023	4,831,341
Beacom Ellis Lab	2019 - 2020	424,934
Dakota Dome - West Side	2020 - 2023	4,289,671
Parry Center	2020 - 2023	935,292
Founder's Park (President's Garden)	2021	515,675
Health Science Building	2022 - 2023	4,000,000
Total major facility projects completed		104,391,845
Other USD Facility and Equipment Support	1996 - 2022	6,881,086
		\$ 111,272,931