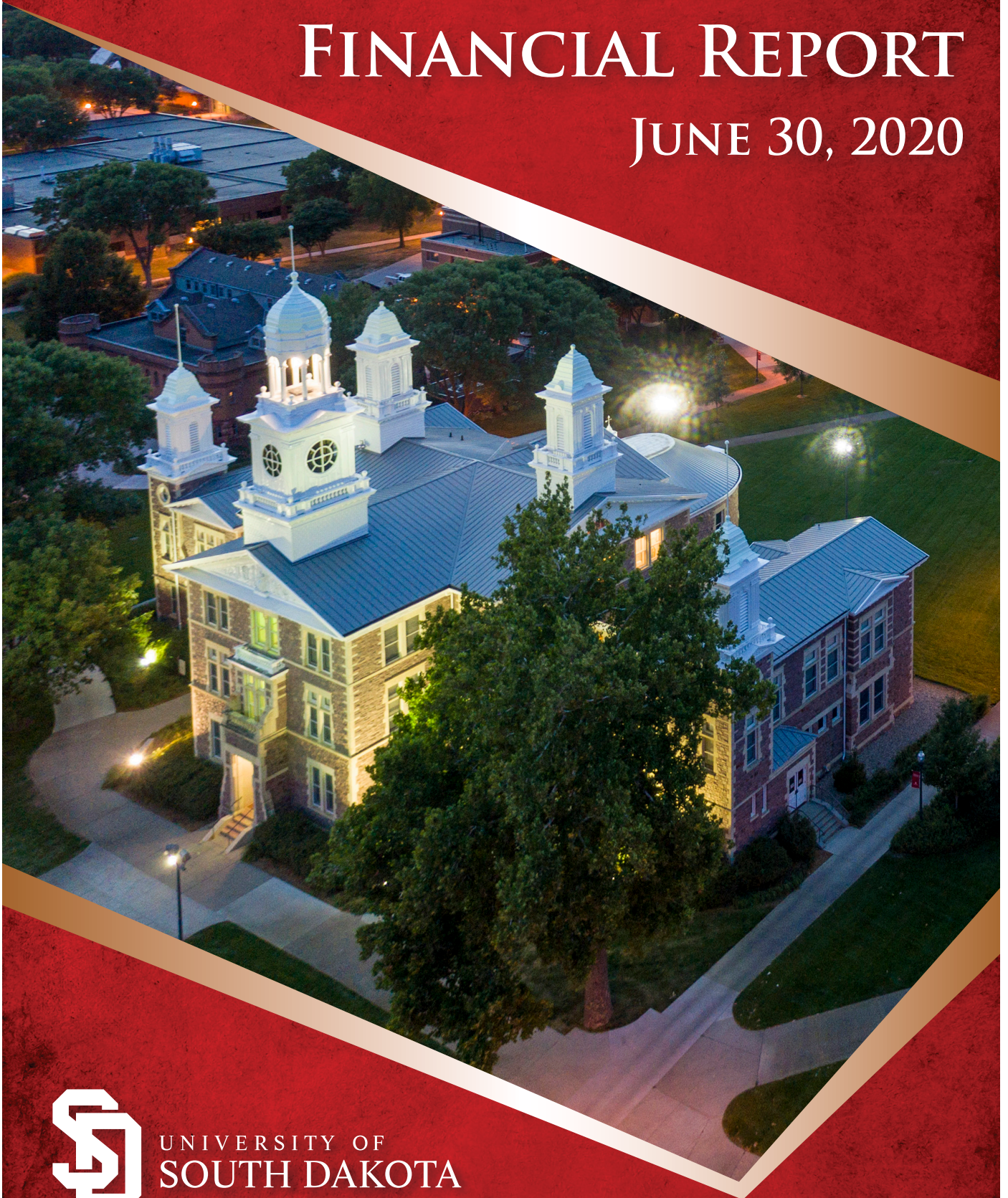


THE UNIVERSITY OF SOUTH DAKOTA AND  
SANFORD SCHOOL OF MEDICINE

# FINANCIAL REPORT

JUNE 30, 2020



UNIVERSITY OF  
SOUTH DAKOTA



*University of South Dakota*  
*Financial Report*  
*For the Year Ended June 30, 2020*

**BOARD OF REGENTS**

John Bastian, President.....	Belle Fourche
Jim Morgan, Vice President .....	Brookings
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**THE UNIVERSITY OF SOUTH DAKOTA**

Sheila Gestring.....	President
Jessica Preister.....	Assistant Vice President, Finance & Administration
Shelley Brunick .....	Comptroller
Justin Noehren.....	Assistant Comptroller



UNIVERSITY OF  
SOUTH DAKOTA

May 4, 2021

Regent John Bastian  
Board of Regents  
306 E. Capitol Avenue  
Pierre, SD 57501

Dear President Bastian:

I have enclosed the Annual Financial Report for The University of South Dakota for fiscal year 2020. The report includes all financial transactions for the period. I trust you will find it informative and helpful.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Sheila K. Gestring".

Sheila K. Gestring  
President  
The University of South Dakota

**SHEILA K. GESTRING, PRESIDENT**

414 East Clark Street • Vermillion, SD 57069 • 605-658-5641 • 605-677-6520 fax • [www.usd.edu](http://www.usd.edu)



UNIVERSITY OF  
SOUTH DAKOTA

May 3, 2021

President Sheila Gestring  
The University of South Dakota

Dear President Gestring:

I am pleased to present the annual Financial Report of The University of South Dakota for the year ended June 30, 2020.

The accounts of The University of South Dakota are maintained and its reports presented in accordance with standards recommended in the manual on College and University Business Administration, insofar as it is consistent with the classification and procedures required by the State of South Dakota.

All state fund expenditures are under the continuous pre-audit control of the State Auditor, and all accounts are under the post-audit control of the Auditor General. This report is intended to form a comprehensive and permanent record of the finances of The University of South Dakota for the fiscal year ended June 30, 2020.

Sincerely,

A handwritten signature in blue ink that reads "Jessica K. Preister".

Jessica K. Preister  
Assistant Vice President of Financial Affairs





**TABLE OF CONTENTS**

Management’s Discussion and Analysis .....	1-11
Financial Statements	
Statement of Net Position.....	12-13
Foundation Statement of Financial Position .....	14
Statement of Revenues, Expenses, and Change in Net Position.....	15-16
Foundation Statement of Revenues, Expenses, and Changes in Net Position .....	17
Statement of Cash Flows.....	18-19
Foundation Statement of Cash Flows.....	20
Notes to the Financial Statements .....	21-32
Foundation Notes to the Financial Statements .....	33-55





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION AND BACKGROUND

The University of South Dakota (University) presents its financial report for the fiscal year ended June 30, 2020, along with comparative data for the fiscal years ended June 30, 2019 and 2018.

The financial operations of The University of South Dakota are audited as a part of the State of South Dakota. Therefore an audit opinion is not issued on the individual statements of the University, but rather on the audited Comprehensive Annual Financial Report of The State of South Dakota. This section of the University of South Dakota's annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2020. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University of South Dakota, the state's flagship university, is a growing, thriving university committed to excellence in education, research, and service. The University has been accredited by the North Central Association of College and Schools since 1913 and is an active member of the Land Grant Colleges. The University is a comprehensive liberal arts university offering undergraduate, graduate and professional programs within the South Dakota System of Higher Education. Our vision is to be the best small, public flagship university in the nation built upon a liberal arts foundation.

Founded in 1862 by the Dakota Territorial Legislature, the University is the state's oldest university. The University is an institution that recognizes the value of its past, even as it extends and expands its high quality programs and services to meet the challenges of tomorrow. Our promise to our students is that The University of South Dakota is the perfect fit for students looking for a smart educational investment.

The University offers classes through several schools and colleges consisting of the College of Arts and Sciences, School of Business, School of Education, College of Fine Arts, School of Law, School of Medicine and the School of Health Sciences.

The University is one of six public universities under the governance of the South Dakota Board of Regents, a nine-member board. Dr. Paul Beran is executive director of the Board of Regents. Therefore, based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units, it has been determined that all six public universities are considered component units of the State of South Dakota and are reported as such in the State's comprehensive annual financial report.

The University of South Dakota Foundation (Foundation) is a component unit of the University. As such, the financial statements of the Foundation are included in this report. Independent auditors engaged by the Foundation's Board of Directors audit the Foundation's financial information. The University has no control or management responsibility over the Foundation funds.

## USING THE FINANCIAL STATEMENTS

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The statements required by GASB include the Statement of Net Position, Statement of Revenues, Expenses and Change in Net Position, and the Statement of Cash Flows. The statements are prepared under the accrual basis of accounting where revenues are recognized when the service is provided and expenses are recognized when a liability is incurred regardless of when the exchange of cash takes place.

The University has provided analysis of major variances that occurred between fiscal years 2020 and 2019 as well as information regarding capital assets and debt administration, and an economic outlook. This MD&A focuses on the University excluding the discretely presented component unit.

## FINANCIAL PERFORMANCE

### *Financial ratios*

The concept of financial analysis through selected measures, such as ratios, has been used in higher education for many years. The ratios should not be the focus; rather, they are tools to assist in the development of the answers to key questions of strategic financial importance. Financial analysis can measure success factors against institution-specific objectives and provide the institution with the tools to improve its financial profile to carry out its mission.

Strategic financial analysis considers the entire institution, including affiliates, regardless of the legal or accounting structures used to remove, isolate or distance the affiliates from the primary institution. Much of public institutions' financial resources often reside in affiliated foundations. The formation of these entities and related transactions are done to advance the institution toward mission achievement and are a critical part of the institution. Therefore, unless noted, the USD Foundation financial information is included in the calculated ratios.

<u><i>Picture of the financial health of the institution at a point in time.</i></u>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Composite Financial Index</b>	3.0	2.8	3.6

The Composite Financial Index (CFI) reflects a picture of the financial health of the institution at a point in time. The index is built with the values of the four component ratios described above. The four ratios are calculated and further weighting is conducted to measure the relative strength of the score and its importance in the composite score.

The CFI in fiscal year 2020 increased by 0.2. The Return on Net Assets ratio and Viability ratio increased. The increases were primarily due to the change in net assets of the Foundation. In FY20, the Foundation had received significantly more revenue compared to FY19.

The CFI in fiscal year 2019 decreased by 0.8. The Primary Reserve Ratio, Net Operating Revenue ratio and Viability ratio decreased. The decreases were primarily due to the change in net assets of the Foundation. In FY19, the Foundation had received significantly less revenue compared to FY18.

<u><i>Are resources sufficient and flexible enough to support the mission?</i></u>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Primary Reserve Ratio</b>	63.7%	69.5%	70.4%
<b>Composite Score</b>	1.68	1.83	1.85

The primary reserve ratio, calculated by dividing expendable net position by total expenses, measures the ability of the University and Component Unit to continue operating at current levels. A ratio of 100% denotes that an institution would have the ability to cover its expenses for one year without a revenue stream. A negative or decreasing trend indicates weakening financial health. A primary reserve ratio of 40% or better is advisable to give institutions the flexibility to transform the enterprise. This gives the institution the ability to cover five months of expenses from reserves. Institutions operating at this targeted ratio level rely on internal cash flow to meet short-term cash needs, are able to carry on reasonable level of facilities maintenance and appear capable of managing modest unforeseen adverse financial events.

The University's primary reserve ratio for fiscal year 2020 is 63.7%, which indicates that the University along with the USD Foundation could continue its current operations for approximately 33 weeks. By comparison, the primary reserve ratio was 69.5% and 70.4% for fiscal years 2019 and 2018, respectively.

<u><i>Are resources, including debt, managed strategically to advance the mission?</i></u>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Net Operating Revenue</b>	-4.66%	-0.52%	-1.66%
<b>Composite Score</b>	-0.36	-0.04	-0.13

The net operating income ratio, calculated by dividing total operating revenue by net operating income, indicates whether total activities resulted in income or deficit. A positive ratio indicates that the University experienced income for one year. The net operating income ratio target is between 2 to 4 percent over an extended time period. The target may appear to be low however the determination of net operating revenues includes depreciation expense as a component, indicating that a positive return in this area would suggest the institution lives within its means.

The University's net income margin was -4.66%, -0.52%, and -1.66% for fiscal years 2020, 2019, and 2018, respectively. The University reported a decrease in operating revenue for FY20 which contributed to the decrease in the net operating revenue ratio.

<i>Does asset performance and management support the strategic direction?</i>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><i>Return on Net Position</i></b>	6.5%	-0.2%	7.6%
<b><i>Composite Score</i></b>	0.65	-0.02	0.76

The return on net position ratio, calculated by dividing the change in net position by total position, is a measure of financial performance of a company which takes the use of assets into account. The ratio provides the most comprehensive measure of the growth or decline in total wealth of an institution over a specific period of time. A target range is approximately 3 or 4 percent. Higher return on net position means that the company is using its assets and working capital efficiently and effectively.

The University's return on net position ratio was 6.5%, -0.2%, and 7.6% for fiscal years 2020, 2019, and 2018, respectively. The increase for FY20 is primarily due to the increase in Foundation Revenues from FY19.

<i>Do operating results indicate the institution is living with available resources?</i>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><i>Viability</i></b>	1.243	1.207	1.269
<b><i>Composite Score</i></b>	1.04	1.01	1.06

The viability ratio is a measure of clear financial health; the availability of expendable net position to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable Net Position are the balances in total net position excluding investment in capital assets and non-expendable loans. A ratio of 1.0 or greater indicates an institution has sufficient expendable net position to satisfy debt requirements. By comparison, the University's viability ratio was 1.243, 1.207, and 1.269 for fiscal years 2020, 2019, and 2018, respectively.

Other ratios of importance include the current ratio and tuition and fees dependency ratio. These ratios reflect the University of South Dakota financial numbers excluding the USD Foundation component unit.

#### ***Current Ratio***

The current ratio is a quick way of determining whether the institution will be able to pay its bills over the coming year. A ratio of less than one indicates a lack of liquidity. The fiscal year 2020 current ratio is 4.19. Current assets of \$92.5 million are sufficient to cover current liabilities of \$22.1 million. By comparison, the current ratio was 5.04 and 4.21 for fiscal years 2019 and 2018, respectively.

#### ***Tuition and Fees Dependency Ratio***

The tuition and fees funding ratio measures the portion of the total operating income that are made up of tuition and fee revenue. An upward trend could indicate an increased reliance on tuition and fee revenue and may indicate the need for an increased diversity in revenue sources. The University's tuition and fee dependency ratio was 34.3%, 39.1%, and 38.2% for fiscal years 2020, 2019, and 2018, respectively.

## **FINANCIAL HIGHLIGHTS AND KEY TRENDS**

The financial highlights and key trends for the University are noted accordingly in the required GASB statements.

### **STATEMENT OF NET POSITION**

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between total assets and deferred outflows of resources and total liabilities, net position, is one indicator of the current financial condition of the University. The changes in net position that occur over time indicate improvement or deterioration of the University's financial condition. Generally assets and liabilities are reported at cost with the exception of investments which are reported at fair value. Capital assets are reported at historical cost less accumulated depreciation. Deferred outflows of resources represent the losses on debt refunding. A three year comparison of the Condensed Statement of Net Position as of June 30 is as follows.



**Condensed Statement of Net Position**

	2020	2019	2018
<b>ASSETS</b>			
Current Assets	\$ 92,540,457	\$ 104,546,518	\$ 87,598,897
Noncurrent Assets	\$ 341,829,265	\$ 318,622,721	\$ 317,832,361
<b>Total ASSETS</b>	<b>\$ 434,369,722</b>	<b>\$ 423,169,239</b>	<b>\$ 405,431,258</b>
<b>DEFERRED OUTFLOWS</b>			
	\$ 2,693,347	\$ 2,851,932	\$ 3,010,529
<b>Total ASSETS and DEFERRED OUTFLOWS</b>	<b>\$ 437,063,069</b>	<b>\$ 426,021,171</b>	<b>\$ 408,441,787</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 22,118,097	\$ 20,733,621	\$ 20,846,310
Noncurrent Liabilities	\$ 102,594,867	\$ 106,236,610	\$ 98,519,650
<b>Total LIABILITIES</b>	<b>\$ 124,712,964</b>	<b>\$ 126,970,231</b>	<b>\$ 119,365,960</b>
<b>NET POSITION</b>			
Investment in Capital, Net of Related Debt	\$ 249,878,187	\$ 222,529,718	\$ 228,422,192
Restricted	\$ 6,202,033	\$ 7,310,873	\$ 7,192,908
Unrestricted	\$ 56,269,885	\$ 69,210,349	\$ 53,460,727
<b>Total NET POSITION</b>	<b>\$ 312,350,105</b>	<b>\$ 299,050,940</b>	<b>\$ 289,075,827</b>
<b>Total LIABILITIES and NET POSITION</b>	<b>\$ 437,063,069</b>	<b>\$ 426,021,171</b>	<b>\$ 408,441,787</b>

The University's largest asset is our investment in the physical plant which represents \$330.7, \$307.0 and \$303.5 million at June 30, 2020, 2019, and 2018 respectively.

During fiscal year 2020, the University's total assets increased over the prior year by \$11.0 million. Non-current assets consist mainly of physical plant which increased \$23.2 million which was due to a \$28.5 million increase in Construction in Progress. Current Assets decreased \$12.0 million which was primarily due to an \$8.7 million decrease in Due From Component Unit.

During fiscal year 2019, the University's total assets increased over the prior year by \$17.6 million. Non-current assets consist mainly of physical plant which increased \$0.8 million. Current Assets increased \$16.9 million which was primarily due to an \$8.7 million increase in Due To Component Unit.

The University's largest liability is Bonds Payable and Obligations under Capital Lease representing \$76.9, \$81.7 and \$74.1 million at June 30, 2020, 2019, and 2018 respectively.

During fiscal year 2020, the University's liabilities decreased by \$2.3 million. Current liabilities increased \$1.4 million. Non-current liabilities consist of obligations which are long-term in nature and decreased \$3.6 million due to a decrease to Bonds Payable and Obligations under Capital Lease.

During fiscal year 2019, the University's liabilities increased by \$7.6 million. Current liabilities decreased \$0.1 million. Non-current liabilities consist of obligations which are long-term in nature and increased \$7.7 million due to an increase to Obligations under Capital Lease.

Net position in fiscal year 2020 increased \$13.3 million for a total of \$312.4 million. Investment in Capital, Net of Related Debt increased \$27.3 million. The Unrestricted net position decreased \$12.9 million.

Net position in fiscal year 2019 increased \$10.0 million for a total of \$299.1 million. Investment in Capital, Net of Related Debt decreased \$5.9 million. The Unrestricted net position increased \$15.7 million.

## Capital Assets

Capital assets, net, include the University's land, buildings, improvements, infrastructure, equipment and collections. Net capital assets increased by \$23.7 million to \$330.7 and increased by \$3.4 million to \$307.0 million respectively for the years ending June 30, 2020 and 2019. University policy requires the capitalization of 1) all land and collection purchases regardless of cost, 2) equipment over \$5,000, 3) buildings and improvements over \$100,000 and 4) land improvements over \$50,000. The University depreciates its capital assets using a straight line basis, using estimated useful lives ranging from three to fifty years. Facilities under construction include projects funded by South Dakota Building Authority issued bonds. This includes various infrastructure upgrades across campus.

The following chart illustrates the composition of the University's capital assets, net of accumulated depreciation, by category.

### Capital Assets, Net of Accumulated Depreciation/Amortization

	2020	% of Total	2019	% of Total	2018	% of Total
Land	3,605,265	1.09%	3,588,329	1.17%	3,588,329	1.18%
Arts & Historical Treasures	375,585	0.11%	375,585	0.12%	375,585	0.12%
Construction in Progress	38,695,111	11.70%	10,195,029	3.32%	4,656,952	1.53%
Land Improvements	11,700,738	3.54%	11,512,391	3.75%	12,276,553	4.05%
Buildings Improvements	242,647,699	73.37%	248,125,043	80.83%	249,208,491	82.10%
Machinery and Equipment	10,406,182	3.15%	11,409,286	3.72%	11,308,761	3.73%
Library	1,735,344	0.52%	1,890,643	0.61%	2,106,064	0.70%
Infrastructure	21,518,129	6.51%	19,850,613	6.47%	19,978,908	6.58%
Intangible Assets	14,334	0.00%	21,501	0.01%	28,668	0.01%
Total Capital Assets, Net of A/D	\$330,698,387	100.00%	\$306,968,420	100.00%	\$303,528,311	100.00%

## Long-Term Debt

The University has utilized revenue bonds to finance capital projects related to the Wellness Center, Coyote Village, Housing improvements and Muenster University Center. Revenues from the operation of these activities are pledged to the repayment of the bonds.

In fiscal year 2019, the University entered into a long-term lease for the Dakota Dome Expansion. The lease agreement was for \$12,925,000. A corresponding receivable from other component unit was also created. The lease agreement will be reduced by the scheduled principal payments whereas the receivable will be reduced by the construction payments made on the University's behalf by South Dakota Building Authority. The final payment is scheduled for fiscal year 2039.

Long-term lease agreements are issued with the South Dakota Building Authority for the replacement of the Dakota Dome roof, remodeling of Old Main, construction of the Sanford Coyote Sports Center, and expansion of the Dakota Dome. The Athletic Department has the ability to generate resources from Athletic activities to fund the payments of the Dakota Dome and Sanford Coyote Sports Center long-term leases. Revenues from facility rentals and facilities and administrative indirect rate assessments on grants and contracts cover the Old Main annual lease obligation. The following is a list of debt outstanding at June 30, 2020, 2019 and 2018.

**Long Term Debt**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Old Main Lease Obligation, Series 1997	\$ 178,000	\$ 343,000	\$ 498,000
Dakota Dome Roof Lease Obligation, Series 2000	2,160,000	2,525,000	2,870,000
Coyote Village, Series 2009	-	-	830,000
Wellness Center, Series 2009	-	-	465,000
Housing, Series 2013	7,818,433	8,639,198	9,429,964
Sports Complex, Series 2013	16,031,824	16,893,211	17,713,865
Housing/Muenster University Center, Series 2015A	8,227,705	8,879,042	9,500,380
Wellness Center/Coyote Village Series 2017	35,455,757	36,833,501	37,056,234
Dakota Dome Expansion Lease Obligation, Series 2018	11,810,000	12,195,000	-
	<u>\$81,681,719</u>	<u>\$86,307,952</u>	<u>\$ 78,363,443</u>

**Net Position**

The University's resources are classified into net position categories in the Statement of Net Position. These categories are defined as:

- Investment in Capital, net of related debt.
- Restricted nonexpendable assets - restricted by externally imposed stipulations.
- Restricted expendable assets - subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations or they expire by the passage of time.
- Unrestricted assets - not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board of Regents.

The University's net position increased by \$13.3 and \$10.0 million during fiscal years 2020 and 2019, respectively. Net position balances are detailed in the table below.

<b>NET POSITION</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Investment in Capital, Net of Related Debt	\$ 249,878,187	\$ 222,529,718	\$ 228,422,192
Restricted			
Loans	804,838	2,101,982	2,022,075
Research	279,636	288,333	249,162
Debt Service	5,169	-	-
Bond Facilities	5,112,390	4,920,558	4,921,671
Unrestricted	<u>56,269,885</u>	<u>69,210,349</u>	<u>53,460,727</u>
Total Net Position	<u>\$ 312,350,105</u>	<u>\$ 299,050,940</u>	<u>\$ 289,075,827</u>

Investment in Capital, Net of Related Debt and Restricted Net Position increased during fiscal year 2020. Restricted Net Position includes Loan funds, Grants and Contracts, and Bonded Facilities. Loan funds consist of Perkins, Nursing, Primary Care and Disadvantaged Medical Student Loans. Research consists of various grants and contracts. Bond Facilities is the minimum amount of Repair and Replacement Reserve (RRR) required for the various Bond Series. Bond Facilities is the minimum amount of Repair and Replacement Reserve (RRR) required for the Bond Series.

Unrestricted Net Position decreased \$12.9 million in FY20 primarily because of the \$8.7 million decrease in Due From Component Unit. Unrestricted Net Position increased \$15.7 million in FY19 primarily because of the \$8.7 million increase in Due From Component Unit.



## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenue, Expenses, and Changes in Net Position presents the University's results of operations. In accordance with GASB reporting standards, revenues and expenses are classified as either operating or non-operating. In accordance with GASB requirements, state appropriations have been classified as non-operating revenues resulting in a net operating loss. The financial statements also include an allowance for depreciation expense, which is the amortization of the costs of capital assets over their estimated useful life.

A condensed Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2020, 2019 and 2018 is as follows.

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating Revenues	\$ 138,519,045	\$ 143,423,931	\$ 140,195,542
Operating Expenses	(217,664,209)	(211,219,948)	(208,835,068)
Operating Loss	(79,145,164)	(67,796,017)	(68,639,526)
Net Nonoperating Revenues	78,051,036	69,544,110	68,987,347
Net Nonoperating Expenses	(3,518,111)	(3,449,670)	(3,300,528)
Income (Loss) Before Other Revenues			
Expenses Gains or Losses	\$ (4,612,239)	\$ (1,701,577)	\$ (2,952,707)
BAB Subsidy	-	22,273	384,486
Capital Grants and Contracts	2,912,378	2,598,635	-
HEFF	13,424,026	9,060,994	4,466,155
SDBA Funding	1,575,000	-	-
Prior Period Adjustment	-	(5,211)	-
<b>Increase in Net Position</b>	<b>\$ 13,299,165</b>	<b>\$ 9,975,114</b>	<b>\$ 1,897,934</b>

The operating loss totaled \$79.1 million and \$67.8 million for fiscal years 2020 and 2019, respectively. State appropriations are classified as non-operating revenues and therefore are not included in the revenue when calculating the operating loss. State Appropriations are an integral part of revenue for the University totaling \$64.1 million and \$60.4 million for fiscal years 2020 and 2019, respectively.

## Operating Revenues

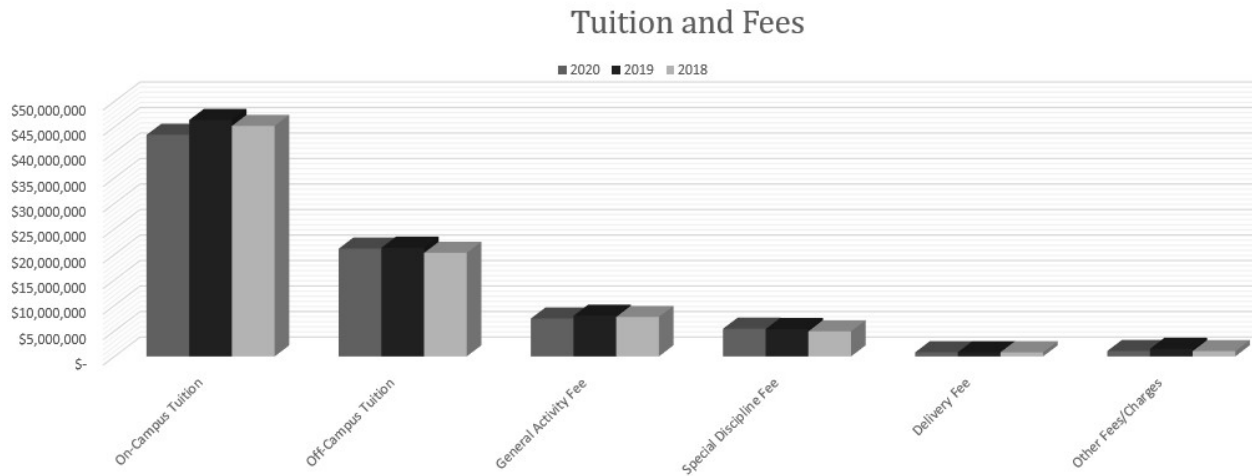
Operating revenue is revenue generated from activities that are related to the business operations. The most significant source of operating revenues from the University are student tuition and fees, grants and contracts, general sales and service revenue and auxiliary enterprise activities.

### University of South Dakota Operating Revenue

	2020	% Change	2019	% Change	2018
Tuition & Fees	\$ 63,888,587	-6.54%	\$ 68,356,416	3.14%	\$ 66,274,350
Auxiliaries	10,443,786	-29.71%	14,858,768	8.94%	13,639,358
General Sales & Services	30,382,816	17.19%	25,926,317	-11.57%	29,319,135
Federal Grants & Contracts	24,481,437	5.12%	23,289,766	7.49%	21,666,933
State Grants & Contracts	4,761,023	-7.24%	5,132,714	4.64%	4,904,886
Private Grants & Contracts	4,065,337	-26.44%	5,526,567	35.49%	4,078,882
Student Loan Interest	282,351	-15.31%	333,383	6.85%	311,999
Loan Cancellation					
Reimbursement	213,708	100.00%	-	0.00%	-
Total Operating Revenues	\$ 138,519,045	-3.42%	\$ 143,423,931	2.30%	\$ 140,195,543

Operating revenues in fiscal year 2020 decreased by \$4.9 million, or 3.42%, as compared to fiscal year 2019. Auxiliaries decreased \$4.4 million and tuition and fees decreased \$4.5 million.

Operating revenues in fiscal year 2019 increased by \$3.2 million, or 2.3%, as compared to fiscal year 2018. Tuition and fees increased \$2.1 million and grants and contracts increased \$3.3 million.



### Non-Operating Revenues and Expenses

Non-operating activities include items such as capital and State appropriations, investment income, capital grants, interest expense, gains and losses. These activities differ from operating activities which are a result of providing services.

	2020	% Change	2019	% Change	2018
General Fund Appropriation	\$ 64,148,990	6.20%	\$ 60,406,129	-0.68%	\$ 60,817,236
School & Public Lands Appr	266,151	12.76%	236,041	0.00%	236,041
Federal Fund Appropriation	4,869,725	100.00%	-	0.00%	-
HEFF -Maintenance	87,983	0.00%	87,983	0.00%	87,983
Investment Income	1,070,303	40.81%	760,108	89.02%	402,134
Other Rev & Additions	7,603,080	-5.60%	8,053,849	8.19%	7,443,953
BAB Subsidy	-	-100.00%	22,273	-94.21%	384,486
Capital Grants & Contracts	2,912,378	12.07%	2,598,635	100.00%	-
HEFF - Capital	13,424,026	48.15%	9,060,994	102.88%	4,466,155
SD Building Authority	1,575,000	100.00%	-	0.00%	-
	<b>\$ 95,957,636</b>	<b>18.14%</b>	<b>\$ 81,226,012</b>	<b>10.01%</b>	<b>\$ 73,837,988</b>

State General Fund Appropriations were the most significant non-operating revenue. The appropriation increased by \$3.7 million in fiscal year 2020 and decreased \$0.4 million in fiscal year 2019. The School and Public Lands Appropriation increased by \$0.03 million in fiscal year 2020 and remained the same in fiscal year 2019. Investment interest earned on participating funds from the Investment Council increased \$0.3 million in fiscal year 2020 and increased by \$0.4 million in fiscal year 2019. Investment interest is earned on an average daily cash balance for participating funds. The University received revenue from the Higher Education Facilities Funds (HEFF) of \$13.4 million and \$9.1 million for fiscal year 2020 and fiscal year 2019, respectively. The funds were used for various repair and renovation projects.

The South Dakota Building Authority issued payments on behalf of the University in the amount of \$1.6 million for fiscal year 2020 and issued no payments on behalf of the University for fiscal year 2019.

Other Revenue & Additions for fiscal year 2020 consisted of \$7.6 million in PELL federal grant funds. Fiscal year 2019 consisted of \$8.0 million in PELL federal grant funds.

## Operating Expenses

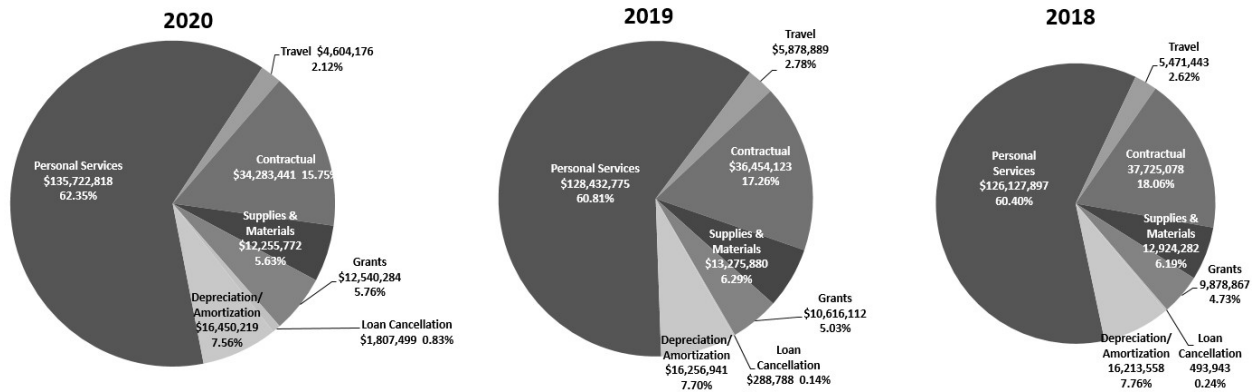
The University chooses to report their expenses by natural classification in the Statement of Revenues, Expenses and Changes in Net Position. For the reader's information, the expenses are displayed in their functional classification in Note 22. The following graphs illustrate the expenses by natural classification.

### University of South Dakota Operating Expenses

	2020	% Change	2019	% Change	2018
Personal Services	\$ 135,722,818	5.68%	\$128,432,775	1.83%	\$ 126,127,897
Travel	4,604,176	-21.68%	5,878,889	7.45%	5,471,443
Contractual	34,283,441	-5.95%	36,454,123	-3.37%	37,725,078
Supplies & Materials	12,255,772	-7.68%	13,275,880	2.72%	12,924,282
Grants	12,540,284	18.13%	10,616,112	7.46%	9,878,867
Loan Cancellation Exp	1,807,499	525.89%	288,789	-41.5%	493,943
Bad Debt Expense	-	-100.00%	16,439	100.00%	-
Depreciation/Amortization	16,450,219	1.19%	16,256,941	0.27%	16,213,558
<b>\$</b>	<b>217,664,209</b>	<b>3.05%</b>	<b>\$211,219,948</b>	<b>1.14%</b>	<b>\$ 208,835,068</b>

Operating expenses in fiscal year 2020 increased 3.05% or \$6.4 million compared to fiscal year 2019. The largest operating expense is salaries and benefits. Salaries and Benefits represent 62.4% of the total current operating expenses and increased by \$7.3 million.

Operating expenses in fiscal year 2019 increased 1.14% or \$2.4 million compared to fiscal year 2018. The largest operating expense is salaries and benefits. Salaries and Benefits represent 60.8% of the total current operating expenses and increased by \$2.3 million.





## STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents information related to cash inflows and outflows. These transactions are classified as operating, non-operating, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations as they mature. A comparative summary of the Statement of Cash Flows for the years ended June 30, 2020, 2019 and 2018 is as follows:

<b>Condensed Statement of Cash Flows</b>			
<b>For the Year Ended June 30</b>			
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash Provided/(Used) by:			
Operating Activities	\$ (50,194,112)	\$ (61,474,171)	\$ (51,987,226)
Non-Capital Financing Activities	77,104,212	67,232,557	68,254,264
Capital Related Financing Activities	(30,269,559)	(1,801,850)	(9,857,616)
Investing Activities	858,874	437,342	411,459
Net Increase (Decrease ) in Cash	(2,500,585)	4,393,878	6,820,881
Cash - Beginning of the Year	76,046,258	71,652,380	64,831,499
Cash - End of the Year	\$ 73,545,674	\$ 76,046,258	\$ 71,652,380

The University's cash and cash equivalents decreased \$2.5 million. The decrease was primarily attributed to increased purchases of capital assets. For fiscal year 2019, the University's cash and cash equivalents increased \$4.4 million. The increase was primarily attributed to decreased purchases of capital assets.

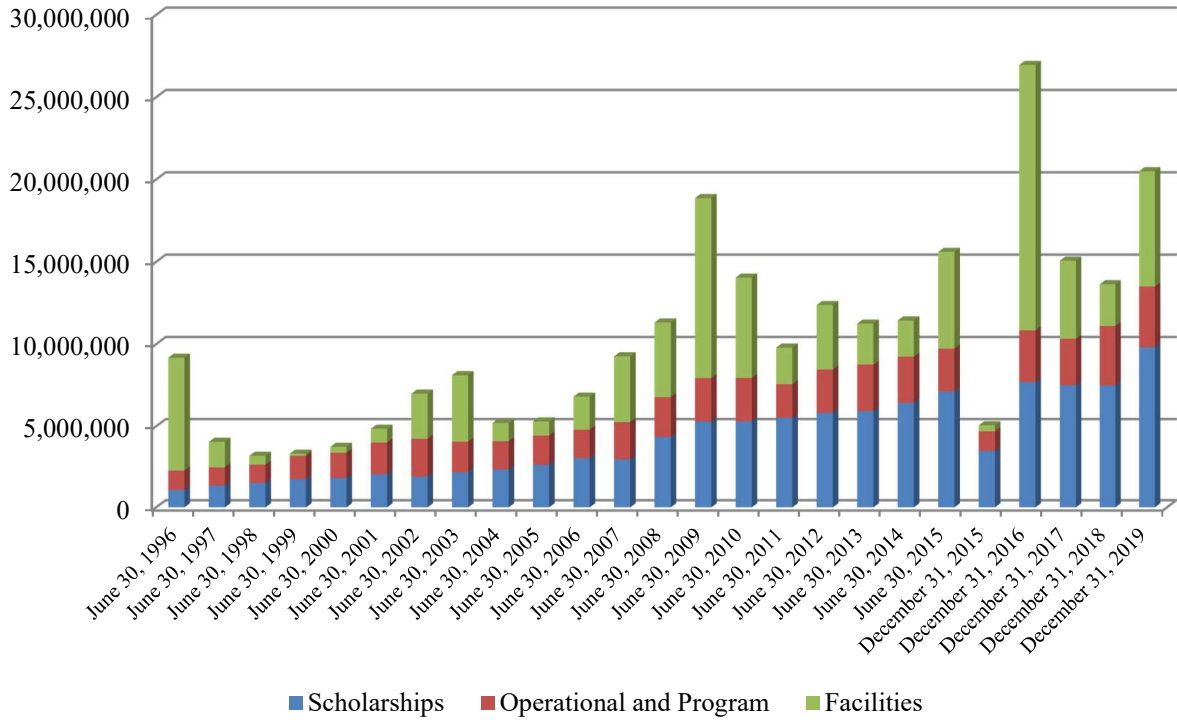
## THE UNIVERSITY'S ECONOMIC OUTLOOK

The University maintains a positive outlook for fiscal year 2020 and beyond. The University continues to be well positioned for the future, both academically and financially. Reliance on state support remains an important non-operating revenue source for the University.

In June 2015, the Foundation's Board of Directors elected to change the year end of the Foundation to December 31. The change was effective beginning July 1, 2015.

The University of South Dakota Foundation reported an increase in net assets of \$23.4 million for the year ending December 31, 2019 as compared to a decrease of \$11.7 million for the year ending December 31, 2018. Gift income totaled \$16.4 million for the year ending December 31, 2019, compared to \$12.5 million for the year ending December 31, 2018. Assets of the Foundation at December 31, 2019 were \$299.1 million compared to \$274.4 million for the year ending December 31, 2018.

## University of South Dakota Foundation Funds Provided for USD Support



**University of South Dakota**  
**STATEMENT OF NET POSITION**  
**June 30**

<b>ASSETS</b>	<b>2020</b>		<b>2019</b>	
Current assets:				
Cash and Cash Equivalents	\$	73,369,064	\$	75,471,650
Cash On Deposit-State Treasurer	\$	176,610	\$	574,608
Accounts Receivable - Student (Net of allowance of \$92,854, \$92,854)	\$	4,662,156	\$	4,941,855
Accounts Receivable -Dept Sales	\$	1,104,289	\$	1,627,847
Notes Receivable	\$	2,287,241	\$	2,620,783
Accrued Interest & Dividends Receivable	\$	1,758,458	\$	1,496,081
Due From Federal Sources	\$	4,428,433	\$	4,963,155
Due From Primary Government	\$	1,391,727	\$	1,039,477
Due From Component Units	\$	405,632	\$	9,131,671
Prepaid Expenses & Deferred Charges	\$	2,364,277	\$	2,135,738
Inventory	\$	592,570	\$	543,653
<b>Total Current assets</b>		<b>\$ 92,540,457</b>		<b>\$ 104,546,518</b>
Noncurrent assets:				
Restricted Cash for Debt Retirement	\$	-	\$	-
Notes Receivable Net	\$	11,130,878	\$	11,654,301
Land and Other Non-Depreciable Assets	\$	3,605,265	\$	3,588,329
Buildings and Building Improvements (NET OF ACCUM DEPR \$144,942,946; \$134,414,513)	\$	242,647,699	\$	248,125,043
Equipment and Other Property (NET OF ACCUM DEPR \$73,146,027; \$71,609,878)	\$	12,141,526	\$	13,299,929
Land Improvements (NET OF ACCUM DEPR \$9,095,422; \$8,164,769)	\$	11,700,738	\$	11,512,391
Museum and Art Collections	\$	375,585	\$	375,585
Infrastructure (NET OF ACCUM DEPR \$13,239,907; \$11,863,009)	\$	21,518,129	\$	19,850,613
Construction in Progress	\$	38,695,111	\$	10,195,029
Intangible Assets (NET OF ACCUM AMORT \$21,501; \$14,334)	\$	14,334	\$	21,501
<b>Total Noncurrent assets</b>		<b>\$ 341,829,265</b>		<b>\$ 318,622,721</b>
Deferred outflows:				
Loss on Refunding	\$	2,693,347	\$	2,851,932
<b>Total Deferred Outflows</b>		<b>\$ 2,693,347</b>		<b>\$ 2,851,932</b>
<b>Total ASSETS AND DEFERRED OUTFLOWS</b>		<b>\$ 437,063,069</b>		<b>\$ 426,021,171</b>

**University of South Dakota**  
**STATEMENT OF NET POSITION**  
**June 30**

<b>LIABILITIES</b>	<b>2020</b>	<b>2019</b>
Current liabilities:		
Accounts Payable	\$ 4,064,697	\$ 3,240,677
Accrued Wages & Benefits	\$ 2,870,388	\$ 2,294,603
Accrued Interest Payable	\$ 745,992	\$ 801,932
Due to Primary Government	\$ 52,026	\$ 116,752
Due to other Component Units	\$ 135,954	\$ 111,152
Agency Funds - Funds Held For Others	\$ 680,990	\$ 654,674
Student Deposits	\$ 444,988	\$ 566,342
Compensated Absences Payable-Current	\$ 4,157,756	\$ 4,252,745
Bonds Payable (net)	\$ 2,939,846	\$ 2,849,846
Obligations Under Capital Leases-Current	\$ 1,873,432	\$ 1,776,387
Unearned Revenue	\$ 4,152,028	\$ 4,068,511
<b>Total Current liabilities</b>	<b>\$ 22,118,097</b>	<b>\$ 20,733,621</b>
Noncurrent liabilities:		
Compensated Absences Payable-Non Current	\$ 8,694,682	\$ 7,661,209
Bonds Payable	\$ 48,562,049	\$ 51,501,896
Obligations Under Cap Leases-Non-Current	\$ 28,306,392	\$ 30,179,824
Fed Cap Contribution Refundable Advance	\$ 17,031,744	\$ 16,893,681
<b>Total Noncurrent liabilities</b>	<b>\$ 102,594,867</b>	<b>\$ 106,236,610</b>
<b>Total LIABILITIES</b>	<b>\$ 124,712,964</b>	<b>\$ 126,970,231</b>
<b>NET POSITION</b>		
Investment in Capital, Net of Related Debt	\$ 249,878,187	\$ 222,529,718
Restricted		
Nonexpendable		
Loans	\$ 804,838	\$ 2,101,982
Expendable		
Research	\$ 279,636	\$ 288,333
Debt Service	\$ 5,169	\$ -
Other	\$ 5,112,390	\$ 4,920,558
Unrestricted	\$ 56,269,885	\$ 69,210,349
<b>Total NET POSITION</b>	<b>\$ 312,350,105</b>	<b>\$ 299,050,940</b>
<b>Total LIABILITIES AND NET POSITION</b>	<b>\$ 437,063,069</b>	<b>\$ 426,021,171</b>

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

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

See Notes to Consolidated Financial Statements

**University of South Dakota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**For the Period Ending June 30**

<b>REVENUES</b>	<b>2020</b>	<b>2019</b>
Operating revenues:		
State Support	\$ 43,440,868	\$ 46,318,786
Self Support	\$ 21,134,272	\$ 21,308,010
University Support Fee	\$ -	\$ 44,166
General Activity Fee	\$ 7,421,029	\$ 7,978,813
Program Fees	\$ 5,433,523	\$ 5,363,549
Vehicle Registration	\$ 500,531	\$ 634,499
Delivery Fee	\$ 810,403	\$ 815,160
Other Fees	\$ 200,774	\$ 356,778
Student Charges	\$ 355,163	\$ 507,385
Student Financial Assistance	\$ (15,407,976)	\$ (14,970,730)
Auxiliaries (NET OF SCHOLARSHIP ALLOWANCES OF \$2,532,802, \$3,280,059)	\$ 10,443,786	\$ 14,858,768
General Sales & Services	\$ 30,382,816	\$ 25,926,317
Federal Grants & Contracts	\$ 24,481,437	\$ 23,289,766
State Grants & Contracts	\$ 4,761,023	\$ 5,132,714
Private Grants & Contracts	\$ 4,065,337	\$ 5,526,567
Student Loan Interest	\$ 282,351	\$ 333,383
Loan Cancellation Reimbursement	\$ 213,708	\$ -
Total Operating revenues	\$ 138,519,045	\$ 143,423,931
<b>EXPENSES</b>		
Operating expenses:		
Personal Services (Salaries/Benefits)	\$ 135,722,818	\$ 128,432,775
Travel	\$ 4,604,176	\$ 5,878,889
Contractual	\$ 34,283,441	\$ 36,454,123
Supplies & Materials	\$ 12,255,772	\$ 13,275,880
Grants	\$ 12,540,284	\$ 10,616,112
Loan Cancellation Expense	\$ 1,807,499	\$ 288,789
Bad Debt	\$ -	\$ 16,439
Depreciation	\$ 16,443,052	\$ 16,249,774
Amortization	\$ 7,167	\$ 7,167
Total Operating expenses	\$ 217,664,209	\$ 211,219,948
Operating income (loss)	\$ (79,145,164)	\$ (67,796,017)

The accompanying notes to The University of South Dakota financial statements are an integral part of this statement.



**University of South Dakota**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**For the Period Ending June 30**

<b>NONOPERATING REVENUES (EXPENSES)</b>	<b>2020</b>	<b>2019</b>
General Fund Appropriation	\$ 64,148,990	\$ 60,406,129
School & Public Lands Appropriation	\$ 266,151	\$ 236,041
Federal Fund Appropriations	\$ 4,869,725	\$ -
HEFF Revenues	\$ 87,983	\$ 87,983
Investment Income	\$ 1,070,303	\$ 760,108
Interest on Capital Asset, related debt	\$ (3,518,111)	\$ (3,427,736)
Gain/Loss on Disposal of Assets	\$ 4,804	\$ (21,934)
Other Revenue & Additions	\$ 7,603,080	\$ 8,053,849
Bond Issuance Costs	\$ -	\$ -
Net Nonoperating revenues (expenses)	\$ 74,532,925	\$ 66,094,440
Income before other revenues expenses gains or losses	\$ (4,612,239)	\$ (1,701,577)
BAB Subsidy	-	22,273
Capital Grants and Contracts	2,912,378	2,598,635
HEFF	13,424,026	9,060,994
South Dakota Building Authority	1,575,000	-
Total Other changes	\$ 17,911,404	\$ 11,681,902
Increase in net position	\$ 13,299,165	\$ 9,980,325
<b>NET POSITION</b>		
Net position - beginning of year, as restated (Note 1)	\$ 299,050,940	\$ 289,075,826
<b>Prior Period Adjustment</b>	\$ -	\$ (5,211)
Net position - end of year	\$ 312,350,105	\$ 299,050,940

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

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

**THE UNIVERSITY OF SOUTH DAKOTA**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition, Fees & Auxiliaries (net of Scholarship Allowance & Discounts)	63,498,306	67,778,362
Auxiliaries	10,443,786	14,858,768
General Sales & Services	29,900,793	26,153,663
Federal Grants & Contracts	25,850,852	12,716,452
State Grants & Contracts	13,067,676	5,253,912
Private Grants & Contracts	4,469,279	4,331,126
Loans Issued to Students	(1,507,945)	(837,116)
Loans Collected from Students	395,970	2,378,477
Student Loan Interest	231,404	235,628
Personal Services (Salaries & Benefits)	(134,198,750)	(128,314,747)
Travel	(4,791,740)	(5,839,032)
Contractual Services	(33,372,186)	(36,770,267)
Supplies & Materials	(11,574,954)	(13,011,900)
Grants & Subsidies	(12,820,309)	(10,407,497)
Other	213,708	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ (50,194,112)</b>	<b>\$ (61,474,171)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES</b>		
General Fund Appropriations	64,148,990	60,406,129
School & Public Lands	266,151	236,041
HEFF	87,983	87,983
Federal Capital Contribution	-	-
Direct, PLUS & Loan Receipts	(58,009,592)	(62,984,462)
Direct, PLUS & Loan Disbursements	58,009,592	62,984,462
Private Loan Disbursements	(7,569,091)	(7,106,581)
Private Loan Receipts	7,569,091	7,106,581
Federal Capital Contribution	138,063	-
Net Change in Funds Held for Others	26,316	16,700
Other Expenses & Deductions	12,436,709	6,485,704
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 77,104,212</b>	<b>\$ 67,232,557</b>
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</b>		
HEFF	13,424,025	9,060,994
BAB Subsidy	-	22,273
Bond/Capital Lease Proceeds	-	12,925,000
Revenue Bond Discounts and Related Costs	-	-
Sale of Investment	27,149	50,962
Principal Payments on Bonds & Capital Leases	(4,231,387)	(4,585,655)
Interest Payments on Bonds & Capital Leases	(3,810,313)	(3,672,258)
Purchase of Capital Assets	(40,166,412)	(18,201,801)
Capital Grants and Contracts	2,912,379	2,598,635
South Dakota Building Authority	1,575,000	-
<b>Net cash used by capital and related financing activities</b>	<b>\$ (30,269,559)</b>	<b>\$ (1,801,850)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	\$ 858,874	\$ 437,342
<b>Net cash provided (used) by investing activities</b>	<b>\$ 858,874</b>	<b>\$ 437,342</b>
<b>Net Cash Provided (Used) by Operations</b>	<b>\$ (2,500,585)</b>	<b>\$ 4,393,878</b>
<b>Cash - Beginning of the year</b>	<b>\$ 76,046,259</b>	<b>\$ 71,652,381</b>
<b>Cash - End of the year</b>	<b>\$ 73,545,675</b>	<b>\$ 76,046,259</b>

**RECONCILIATION OF NET OPERATING REVENUES/(EXPENSES) TO  
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES**

	<b>2020</b>	<b>2019</b>
<b>OPERATING INCOME (LOSS)</b>	\$ (79,145,164)	\$ (67,796,017)
Adjustments to reconcile net income (loss) to net cash provided (used) by Operating activities:		
Depreciation Expense	16,450,219	16,256,941
Loan Cancellation Expense	77,645	46,481
<b>CHANGES IN ASSETS AND LIABILITIES:</b>		-
Accounts Receivable	803,257	(1,074,338)
Notes Receivable	779,296	1,783,668
Interest Receivable	(50,947)	(97,756)
Due from Federal Sources	534,721	(1,348,724)
Due from Primary Government	(352,249)	79,888
Due from Component Units	8,726,039	(8,825,730)
Prepaid Expenses	(228,538)	(197,129)
Inventories	(48,918)	52,411
Accounts Payable	824,020	(48,429)
Accrued Wages & Benefits	575,785	(174,969)
Due to Primary Government	(64,725)	9,073
Due to other Component Units	24,801	24,945
Student Deposits	(121,354)	71,564
Compensated Absences Payable	938,484	306,299
Unearned Revenue	83,516	(881,004)
Deferred Tuition	-	338,655
<b>NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES</b>	<b>\$ (50,194,112)</b>	<b>\$ (61,474,171)</b>
<b>NON CASH TRANSACTIONS:</b>		
Gain (Loss) on disposal of Assets	4,804.00	(21,933.00)
Donated Books/Fixed Assets	36,096.00	49,841.00

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# The University of South Dakota Foundation

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

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

See Notes to Consolidated Financial Statements



## University of South Dakota Notes to the Financial Statements

### Note 1 - Summary of Significant Accounting Policies

**Organization:** The University is one of six public universities under the governance of the South Dakota Board of Regents, a nine-member board. Dr. Brian Mayer is executive director of the Board of Regents. The University offers classes through several schools and colleges consisting of the College of Arts and Sciences, School of Business, School of Education, College of Fine Arts, School of Law, School of Medicine and the School of Health Sciences.

**Financial Statement Presentation:** As a component unit of the State of South Dakota, the University presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," as amended by GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities." GASB No. 35 allows public colleges and universities to report as a business-type activity under GASB No. 34 which requires a comprehensive, entity-wide presentation of the University's assets, liabilities, net position, revenues, expenses, change in net position and cash flows. These statements were implemented for the fiscal year ended June 30, 2002.

**Basis of Accounting:** The University is considered to be a special-purpose government engaged only in business-type activities. The University has adopted the accrual basis of accounting as required by generally accepted accounting principles in preparing its annual financial statements. Under the accrual basis of accounting, revenue is recognized when earned, expenditures when an obligation is incurred and depreciation expense is recognized on capitalized assets. Eliminations have been made to minimize the "double-counting" of internal activities.

**Reporting Entity:** The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, as required by GASB statement No. 14, The Financial Reporting Entity. As additionally required by GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, organizations that raise and hold economic resources for the direct benefit of the University are included in the reporting entity. The University evaluates potential component units for inclusion in the reporting entity based on these criteria.

The University of South Dakota Foundation is an independent, not-for-profit, South Dakota Corporation organized solely for the benefit of The University of South Dakota. The mission of the Foundation is to solicit, manage and distribute gifts for the benefit of The University of South Dakota in all facets of its operations, aiding the University's efforts to become America's finest small state university. Gifts to the Foundation are tax deductible under applicable provisions of law. The Foundation is considered a component unit of the University according to the criteria in GASB No. 39 and the University's financial statements include discrete presentation of the Foundation by displaying the Foundation's audited financial statements in their original formats on separate pages.

The University is a component unit of the State of South Dakota. A separate Financial Statement will be issued for the University as well as included as a component unit in the State of South Dakota's Financial Statements.

**Fund Accounting:** In order to ensure observance of the limitations and restrictions placed on the use of resources available to the University, the accounts of the institution are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources are classified for accounting and reporting purposes

into funds that are maintained in accordance with activities or objectives specified by donors, governmental appropriations, granting agencies, and other sources or regulations.

Separate Funds are maintained for each funded activity; however, in the accompanying statements, all funds have been combined in order to present the financial statements from a comprehensive entity-wide perspective.

**Accounts Receivable:** Accounts Receivable consists of funds owed to various University departments at June 30, 2020 from external sources. Accounts Receivable consists of funds owed from students for outstanding tuition and fee charges and from external sources for various sales and services. The University uses the allowance method for calculating uncollectible accounts for accounts receivables. Under the allowance method, a reserve is established for the projected amount that will become uncollectible. The projections for student accounts receivable is based on the current default rate.

**Notes Receivable:** Notes Receivable consist of amounts associated with various student loan programs.

**Interest Receivable:** The Interest Receivable consists of Interest Receivable on student loans and interest earned through the State Investment Council. Interest Receivable is recorded at the time the interest income is determined.

**Cash and Cash Equivalents:** For reporting purposes, Cash includes cash on hand and cash in local banks. Cash Equivalents include short-term investments with original maturities of three months or less.

**Investments:** Investments included in Cash on Deposit – State Treasurer consists of funds on deposit with the State Treasurer which are pooled by the State Investment Council for investment purposes. Investments are reported at cost as market values are not readily available for funds on deposit with the State Treasurer. Interest earnings on Current Funds investments are not received by the University but are credited to the State of South Dakota’s General Fund with the exception of School & Public Lands funds and Loan Funds which do receive interest earnings. In addition, interest earnings are received from Investments in the Renewals and Replacements Funds, Retirement of Indebtedness Fund, off-campus Tuition, General Activity funds and Unexpanded Plan Fund. Interest earnings in the Unexpanded Plant Fund are primarily from the unexpended portion of the Construction accounts.

Interest earnings are credited to the Perkins Student Loan Program, Nursing Student Loan Program, Health Professions Student Loan Program, and Loans for Disadvantaged Med Students based upon the State Investment Council prorated rate of return.

**Due To /Due From:**

- Due From Federal Sources represents expenditures made on grants or Federal Appropriations for which reimbursement has not yet been received.
- Due From Primary Government represents funds owed from various state agencies of South Dakota, outside of Higher Education.
- Due From Other Component Unit represents funds owed from other South Dakota public universities or the South Dakota Board of Regents.
- Due to Federal Sources represents funds owed to federal agencies.
- Due to Primary Government represents funds owed to various state agencies of South Dakota, outside of Higher Education.
- Due To Other Component Units represent funds owed to other South Dakota public universities or the South Dakota Board of Regents.

**Inventories:** Inventories of supplies are reported using the FIFO method or last invoice price.

**Prepaid Expenses:** Prepaid expenses are recorded for amounts paid for the University’s subscriptions, memberships, computer services, software leases, software maintenance, and insurance that have not yet been incurred as an expense.

**Capital Assets:** Capital assets are recorded at cost or, for contributed assets, at fair value at the date of acquisition. The University capitalized equipment with a cost of \$5,000 or more and a useful life in excess of one year. Land, buildings, building improvements and infrastructure are capitalized at cost at the time of purchase or, if contributed, at the appraised value at the date of gift. The University capitalized major additions to plant assets when the addition increased the value by \$100,000 or more for building and building improvements and \$50,000 or more for land improvement and infrastructure. The University capitalizes assets in accordance with the Board of Regents policy. Library books and films are depreciated by the group method of depreciation at a straight-line depreciation over a 10-year period. Library books and films are assumed to be fully depreciated when they are deleted. The University depreciates buildings and building improvements, land improvements, infrastructure and equipment. Buildings are depreciated over 50 years for a major structure, 25 years for pole and storage buildings and 10 years for minor structures. Building improvements and land improvements are depreciated over 20 years. Infrastructure is depreciated over a range of 20 to 50 years. Equipment is depreciated over various useful lives based on classes of assets. Library books are depreciated based on a 10 year average. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets. Useful lives for capital assets are established using the state's policy on useful life of assets.

Major additions to plant assets which are not completed at year end are included in the financial statements as construction in progress. When the major additions are completed the capitalized cost will be transferred to buildings and building improvements, land improvements, or infrastructure.

During fiscal year 2015, the Higher Education Facilities Fund (HEFF) allocates 20% of tuition and system fees deposited with the Tuition and Fee Fund from all state supported universities in South Dakota to building improvements. Beginning in fiscal year 2016, the HEFF rate was decreased to 11.5% as a result of combining Tuition charges and the University Support Fee.

Equipment and other property contain \$10,406,182 of equipment and \$1,735,344 of library books and films net of depreciation. The Oscar Howe Art collection (Works of Arts & Historical Treasures) is a Non-Depreciable Asset and is valued at estimated fair market value. The art collection includes all items in the collection including those items that are less than \$5,000.

**Unearned revenue:** Unearned revenue is recorded for amounts received from contract and grant sponsors that have not yet been earned and performance by the University has not been completed.

**Compensated Absences:** Liabilities for compensated absences are recorded for vacation leave based on actual earned amounts for eligible employees who qualify for termination payments. Liabilities for sick leave are recorded for employees who are eligible for and have earned termination payments for accumulated sick days upon termination or retirement.

**Net Position:** The University's net positions are classified for financial reporting in the following net position categories:

1. Investment in capital assets, net of related debt: This component of net position includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction or improvement of those assets.
2. Restricted net position – nonexpendable: Nonexpendable restricted net position is subject to externally imposed stipulations that the principal is to be maintained in perpetuity and invested for the purpose of producing present and future income, which may be either expended or added to principal.
3. Restricted net position – expendable: Restricted expendable net position are resources the University is legally obligated to spend in accordance with externally imposed restrictions.

4. **Unrestricted net position:** Unrestricted net positions are not subject to externally imposed restrictions and are used for meeting expenses for academic and general operation of the University. The assets represent resources derived from student tuition and fees, state appropriations, and sales and service from educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operation of the University, and may be used at the discretion of the governing board to meet current expense for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

**Scholarship Allowances and Student Aid:** Tuition and fee revenue has been reported net of scholarship allowance and student aid in accordance with the alternative method prescribed by NACUBO. Under the alternative method, tuition and fee revenue is reduced by the amount that was paid for by certain types of financial aid such as PELL grants, scholarships and other governmental grants. The alternative method eliminated double reporting of revenue, first as financial aid revenue and then as tuition and fee revenue. Using the alternative method, the revenue is recognized for the financial aid grants, scholarship, etc. while the financial aid expense and tuition and fee revenue is eliminated for the amount of financial aid applied to students' accounts.

**Revenue Recognition:** The University uses accrual basis accounting and therefore recognizes revenues when earned. Current year revenue is recognized for all outstanding accounts receivable owed to the University from external sources as of June 30, 2020.

**Operating and Non-Operating Revenues:** Operating revenues include tuition and fee revenue, departmental and auxiliary sales and services, loan funds and exchange transactions. Most of the revenue generated from the University's federal, state and local grants has been determined to be exchange transactions.

Non-operating revenue includes state appropriations, federal appropriations, non-exchange transactions and most investment income.

## Note 2 – Cash and Cash Equivalents

For reporting purposes, cash includes cash on hand, cash in local banks, and cash in the State Treasury. Cash equivalents are reported at cost.

## Note 3 – Retirement Plan

**South Dakota Retirement System, Plan Description:** The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system established to provide retirement, disability and survivor benefits for employees of the state and its political subdivisions. The right to receive retirement benefits vests after five years (effective July 1, 1998, after three years) of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures and required supplementary information. The SDRS is considered part of the state of South Dakota financial reporting entity and is included in the state's financial report as a pension trust fund. Copies of the separately issued financial report may be obtained by writing to the SDRS PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution.

#### Note 4 – Notes Receivable

Notes Receivable consisted of the following at June 30, 2020 and 2019:

	2020	2019
Student Loans Receivable (Current)	\$ 2,287,241	\$ 2,620,783
Student Loans Receivable (Non-Current)	11,130,878	11,654,301
Total Student Loan Receivable	<u>\$ 13,418,119</u>	<u>\$ 14,275,084</u>

#### Note 5 – State Appropriations

The State General Fund Appropriation for fiscal year 2020 was \$64,148,990. In fiscal year 2019, it was \$60,406,129.

#### Note 6 – Tuition and fees

The University only reports on-campus tuition and system fees revenue that is not allocated to the Board of Regents Tuition and Fees fund and Higher Education Facilities Fund (HEFF). For fiscal year 2020, the University tuition revenue was \$43,440,869. The fiscal year 2019 tuition revenue was \$46,318,786.

	2020	2019
<b>University Revenue</b>		
Tuition	\$ 43,440,868	\$ 46,318,786
<b>Remitted to BOR</b>		
Technology Fee	\$ 239,036	\$ 246,335
Science Lab Facility Bond	\$	\$ 604
EUC	\$ 464,838	\$ 395,459
	<u>\$ 703,874</u>	<u>\$ 642,398</u>
<b>Remitted to Higher Education Facilities Fund</b>		
Off Campus Tuition 11.5%	\$ 2,706,270	\$ 2,045,423
On-Campus Tuition 11.5%	\$ 5,651,606	\$ 5,481,182
Off Campus 20%	\$	\$ 6,580
Tuition 20%	\$	\$ 6,464
	<u>\$ 8,357,876</u>	<u>\$ 7,539,649</u>
<b>Total Tuition Collected</b>	<u><b>\$ 52,502,618</b></u>	<u><b>\$ 54,500,833</b></u>

The University collected and remitted \$52,502,618 and \$54,500,833 in on-campus support tuition and system fees for the fiscal years 2020 and 2019, respectively.

The HEFF funds remitted consists of 11.5% of all on and office campus tuition. \$175,000 is excluded for Medical School tuition SDCL 13-53-15.3.

The University also reported \$21,134,272 and \$21,308,010 of Off-Campus tuition for fiscal years 2020 and 2019, respectively.

#### Note 7 – Student Fees

Student fees approved by the Board of Regents consist of General Activity Fees, Program Fees, Lab Fees, Delivery Fees, Vehicle Registration Fees, Transcript Fees, International Fees and Exam Fees. These fees totaled \$14,366,260 for fiscal year 2020. These fees are retained by the University to support various student activities and the programs with which the fees are associated.

**Note 8 – Commitments**

The University had outstanding commitments under construction contracts of approximately \$7,261,675 at June 30, 2020.

**Note 9 – Endowments and Similar Funds**

The assets of the endowment and similar funds administered by the Department of School and Public Lands have not been included in the financial statements because the University does not actively participate in the administration of the funds.

Asset information for the Endowment and similar funds administered by the Department of School and Public lands as of June 30, 2020 was not available.

**Note 10 – Related Parties**

The financial statements of The University of South Dakota, which is a component unit of the State of South Dakota, do not include the assets, liabilities, or fund balances of affiliated organizations, whose financial statements are separately audited. The Foundation is the only related party of The University of South Dakota and their statements are listed behind the University of South Dakota's financial statements.

**Note 11 – Student Deposits**

Student Deposits consist of funds held for students for admissions deposits, housing deposits, and Student Alternative loan program. Student Deposits consist primarily of cash assets and total \$444,988 for fiscal year 2020.

**Note 12 – Funds held for Others**

Funds held for others consist of \$680,991 in funds held for various student organizations. The funds held for others are principally cash.

**Note 13 – Construction in Progress**

Schedule of Changes in Construction in Progress (CIP):

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Construction in Progress	10,195,029	37,594,164	(9,094,082)	38,695,111

**Note 14 – Capital Assets**

Capital Asset Activity for the Year Ended June 30, 2020:

	<b>Beg Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>End Balance</b>
Capital assets not being depreciated:				
Land	\$ 3,588,329	\$ 16,936	\$ -	\$ 3,605,265
Works of Arts & Historical Treasures	375,585	-	-	375,585
Construction in Progress	10,195,029	37,594,164	(9,094,082)	38,695,111
<b>Total capital assets not being depreciated:</b>	<b>\$ 14,158,943</b>	<b>\$37,611,100</b>	<b>\$ (9,094,082)</b>	<b>\$ 42,675,961</b>

Capital assets being depreciated:

Land Improvements	\$ 19,677,160	\$ 1,119,001	\$ -	\$ 20,796,161
Buildings	251,846,833	120,422	-	251,967,255
Building Improvements	130,692,722	4,930,668	-	135,623,390
Machinery and Equipment	39,166,715	2,195,112	(1,706,165)	39,655,662
Library	45,743,092	309,246	(420,446)	45,631,892
Infrastructure	31,713,622	3,044,413	-	34,758,035
Intangible Assets	35,835	-	-	35,835
<b>Total capital assets being depreciated:</b>	<b>\$ 518,875,979</b>	<b>\$11,718,862</b>	<b>\$(2,126,611)</b>	<b>\$ 528,468,230</b>

Less accumulated depreciation/amortization for:

Land Improvements	\$ 8,164,768	\$ 930,654	\$ -	\$ 9,095,423
Buildings	61,992,301	4,827,107	-	66,819,408
Building Improvements	72,422,211	5,701,327	-	78,123,538
Machinery and Equipment	27,757,429	3,142,522	(1,650,471)	29,249,481
Library	43,852,449	464,544	(420,446)	43,896,547
Infrastructure	11,863,010	1,376,897	-	13,239,906
Intangible Assets	14,334	7,167	-	21,501
<b>Total accumulated depreciation:</b>	<b>\$ 226,066,502</b>	<b>\$ 16,450,218</b>	<b>\$ (2,070,917)</b>	<b>\$ 240,445,804</b>

**Total capital assets being depreciated, net:**

<b>\$ 292,809,477</b>	<b>\$ (4,731,356)</b>	<b>\$ (55,694)</b>	<b>\$ 288,022,426</b>
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**Capital Assets, Net**

<b>\$ 306,968,420</b>	<b>\$ 32,879,744</b>	<b>\$ (9,149,776)</b>	<b>\$ 330,698,387</b>
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**Note 15 – Invested in Capital, Net of Related Debt**

Capital Investment	\$ 330,698,387
Less: Related Debt	<u>(80,820,200)</u>
Invested in Capital, Net of Related Debt	<u>\$ 249,878,187</u>

**Note 16 – Restricted Net Position**

The University had restricted non-expendable assets for Loans of \$804,838. Loan funds consisted primarily of Cash and Notes Receivable issued to students less estimated allowance less Federal Capital Contributions which represents the funds that would be owed to the federal government if the federal loan programs were eliminated.

The University had other restricted expendable assets of \$5,397,195 which consisted of \$279,636 of assets restricted by various grants and contracts, \$5,169 of assets restricted by debt service, and \$5,112,390 of assets restricted by bond covenants to be held for use in Renewals and Replacements of buildings covered by various bond covenants.

**Note 17 – Long-term Liabilities**

Long-term liabilities include capital leases, bonds payable, compensated absences and the federal capital contributions to the federal loan programs.



	Interest Rate	Maturity Date	Balance 7/1/2019	Change In Fringe Benefit	Additions	Reductions	Balance 6/30/2020	Due within One Year
<b>Revenue Bonds and Long-Term Lease Agreements</b>								
Old Main Long-term Lease, Series 1997	5.50%	2021	343,000	--	--	(165,000)	178,000	178,000
Dakota Dome Roof Long-Term Lease, Series 2000	4.5-6.5%	2025	2,525,000	--	--	(365,000)	2,160,000	385,000
Housing and Auxiliary Facilities Revenue Bonds, Series 2013	2-4%	2028	8,020,000	--	--	(750,000)	7,270,000	775,000
Sports Complex Long-Term Lease, Series 2013B/C	1.9-4.4%	2033	16,893,211	--	--	(861,387)	16,031,824	905,432
Housing and Auxiliary Facilities Revenue Bonds, Series 2015	4-5%	2030	7,815,000	--	--	(550,000)	7,265,000	575,000
Wellness Center and Coyote Village Revenue Bonds, Series 2017	4-5%	2039	32,490,000	--	--	(1,155,000)	31,335,000	1,195,000
Dakota Dome Renovations, Long-Term Lease, Series 2018A	4-5%	2039	12,195,000	--	--	(385,000)	11,810,000	405,000
<b>Sub-Total</b>			<b>80,281,211</b>	<b>-</b>	<b>-</b>	<b>(4,231,387)</b>	<b>76,049,824</b>	<b>4,418,432</b>
<b>Compensated Absences</b>								
Sick Leave Liability			6,627,057	--	1,107,313	(888,845)	6,845,525	831,337
Annual Leave Liability			5,286,897	--	4,086,688	(3,366,672)	6,006,913	3,326,419
<b>Sub-Total</b>			<b>11,913,954</b>	<b>--</b>	<b>5,194,001</b>	<b>(4,255,517)</b>	<b>12,852,438</b>	<b>4,157,756</b>
<b>Federal Portion of Loan Programs</b>								
Federal Capital Contribution			16,893,681	--	138,063	--	17,031,744	--
<b>TOTAL Long Term Liabilities</b>			<b>109,088,846</b>	<b>--</b>	<b>5,332,064</b>	<b>(8,486,904)</b>	<b>105,934,006</b>	<b>8,576,188</b>

Revenue Bonds are authorized by the Board of Regents and were issued to finance the construction of residence halls and the student union. These bonds are not collateralized. Payments come from pledged net revenues from the operation of the residence halls and student union. The net pledged revenue of \$7,828,698 consists of revenues from Auxiliary Services and is available as security for debt service.

In fiscal year 2019, the University entered into a long-term lease for the Dakota Dome Expansion. The lease agreement was for \$12,925,000. The final payment is scheduled for fiscal year 2039.

In fiscal year 2018, the University issued \$32,490,000 in Revenue Bonds Series 2017 to refund Series 2009 bonds. The net proceeds of the refunding were \$36,900,902 after payment of \$213,985 in underwriting fees and \$52,720 of issuance costs plus \$4,677,607 in bond premium.

Long-term lease agreements are issued with the South Dakota Building Authority for the replacement of the Dakota Dome roof, the remodeling of Old Main, the construction of the new Sports Complex, and the Dakota Dome Expansion. The Dakota Dome roof payment comes from the net revenues from Athletics and student fees. The Old Main lease payments are from exam for credit fees, facilities rental income, grant overhead, and indirect revenue charged to revenue generating activities. The Sports Complex lease payments are from advertising revenue and facilities rental income. The Dakota Dome Expansion lease payments come from private donations.

The future amounts of principal and interest payments required by the debt agreements (excluding federal loans and compensated absences) are as follows:

<b>Year Ending June 30,</b>	<b>Revenue Bonds</b>		<b>Long-Term Leases</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2021	2,545,000	2,118,000	1,873,432	1,493,232	8,029,664
2022	2,685,000	1,990,750	1,774,803	1,399,252	7,849,805
2023	2,815,000	1,856,500	1,862,518	1,310,864	7,844,882
2024	2,945,000	1,724,300	1,958,595	1,215,691	7,843,586
2025	3,080,000	1,585,950	2,060,049	1,113,221	7,839,220
2026-2030	15,435,000	5,723,600	9,142,704	4,223,710	34,525,014
2031-2035	9,770,000	2,676,500	8,167,724	1,764,795	22,379,019
2036-2040	6,595,000	672,200	3,340,000	332,000	10,939,200
<b>Total</b>	<b>45,870,000</b>	<b>18,347,800</b>	<b>30,179,825</b>	<b>12,852,765</b>	<b>107,250,390</b>

The Revenue Bonds Payable is reported on the Statement of Net Position, net of bond premiums and bond discounts, as shown below:

	<b>Total Bonds Payable</b>	<b>Short-Term Portion</b>	<b>Long Term Portion</b>
Revenue Bonds Payable	\$ 45,870,000	\$ 2,545,000	\$ 43,325,000
Premium/Discount	5,631,895	394,846	5,237,049
Per Statement of Net Position	<b>\$ 51,501,895</b>	<b>\$ 2,939,846</b>	<b>\$ 48,562,049</b>

### **Compensated Absences:**

Annual leave is earned by State of South Dakota employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balance. At June 30, 2020 a liability existed for accumulated annual leave calculated at the employees' June 30, 2020 pay rates. The accrued annual leave liability for the University as of June 30, 2020 was \$6,006,913. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of the employee's annual compensation. At June 30, 2020, a liability existed for accumulated sick leave calculated at the employees' June 30, 2020 pay rate in the amount of \$6,845,525.

### **Federal Capital Contribution**

The Federal Capital Contribution represents the funds that would be owed to the federal government if the federal loan programs were eliminated.

**Note 18 – Lease Obligations**

A summary of changes in operating leases is as follows:

	June 30, 2019		June 30, 2020	
	Beginning Balance	Additions	Payments/ Deductions	Ending Balance
Xerox Copier	\$ 476,631	\$ 45,491	\$ 192,071	\$ 330,051
Postal Machine	\$ 47,132	\$ 882	\$ 15,408	\$ 32,606
Facilities Space	\$ 1,313,312	\$ 116,671	\$ 559,738	\$ 870,245
Airplane	\$ 117,000	\$ -	\$ 52,000	\$ 65,000
<b>Total</b>	<b>\$ 1,954,075</b>	<b>\$ 163,044</b>	<b>\$ 819,217</b>	<b>\$ 1,297,902</b>

The University has entered into operating leases with A&B Business, Konica Minolta, and Marco Inc. for copier services. Payments are payable from auxiliary services operating revenues. The University has numerous operating leases of facilities space which are paid from federal funding, fees and other sources. The University also entered into a lease agreement with the University of South Dakota Foundation for the lease of an airplane. Payments are made from Auxiliary Services operating revenue.

The following is a schedule of the University's aggregate minimum payments for the succeeding five years ending June 30 and thereafter.

Year Ending June 30,	
2021	\$ 624,867
2022	374,025
2023	164,607
2024	67,202
2025	67,201
2026-2030	16,784
<b>TOTAL</b>	<b>\$ 1,314,686</b>

**Note 19 – Scholarship Allowance and Student Aid****Allocating Scholarship Allowances**

Institutional Resources Provided as Financial Aid	Percent	Scholarship Allowance Allocation	Expense Allowance
Supplemental Educational Opportunity Grant	\$ 429,750 1.77%	\$ 316,833	\$ 112,917
Pell Grants	7,732,135 31.77%	5,700,515	2,031,620
Other Fed Scholarships	1,719,539 7.07%	1,267,730	451,809
Institutional Scholarships	9,066,268 37.25%	6,684,104	2,382,164
Athletic Scholarships	4,662,154 19.16%	3,437,172	1,224,982
<b>Non-Monetary Institutional Waivers</b>			
Institutional	238,128 0.98%	175,560	62,568
Residential Life	486,761 2.00%	358,864	127,897
<b>Total</b>	<b>24,334,735</b>	<b>\$ 17,940,778</b>	<b>\$ 6,393,957</b>

**Allocation Ratio for Tuition Discount & Student Aid Expense:**

		<b>Percent</b>	<b>Scholarship Allowance Allocation</b>
Tuition & Fee Allocation & Tuition & Fees Local	\$ 78,941,400	85.88%	\$ 15,407,976
Auxiliary Revenue	\$ 12,976,588	14.12%	\$ 2,532,802

**Note 20 – Risk Management**

The Office of Risk Management of the Bureau of Administration is the insurance, loss control and safety resource for all state agencies within South Dakota. The responsibilities of the Office of Risk Management include protecting the State’s assets; providing a safe environment for State employees and for the general public who come in contact with State employees or property as services are provided; minimizing the possible interruptions of vital public services; safeguarding that exposures of financial loss are discovered and handled appropriately; reducing the costs and consequences of accidents, including insurance premiums, through effective safety management.

Tort liability coverage is provided to state employees under the Public Entity Pool for Liability (PEPL). State law provides that sovereign immunity is waived to the extent that coverage is provided either through the purchase of insurance or an arrangement such as the State has with PEPL. Therefore, the “Agreement” and “Memorandum of Coverage” between the State and PEPL carve out the instances where the State waives sovereignty immunity and agrees to cover damages for which an employee becomes liable. Coverage under PEPL includes general liability, law enforcement liability, public officials’ errors and omissions liability, automotive liability and some medical malpractice liability. The coverage limit under PEPL is \$1,000,000 per occurrence.

**Note 21 – Prior Period Adjustments**

The University had no prior period adjustments.

**Note 22 – Functional Expenses****FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION**

	<b>Personal Services</b>	<b>Travel</b>	<b>Contractual</b>	<b>Supplies &amp; Materials</b>	<b>Grants &amp; Subsidies</b>	<b>Other</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	60,886,752	775,685	6,673,668	2,399,712	31,908	-	639,975	71,407,700
Research	7,598,546	275,336	905,246	1,350,048	3,436,130	-	1,241,436	14,806,742
Public Service	9,605,797	437,829	1,863,130	691,040	427,996	-	78,774	13,104,566
Academic Support	21,496,994	418,946	5,933,086	2,065,190	5,522	-	655,170	30,574,908
Student Services	12,925,551	2,321,659	2,898,827	1,939,044	3,799	-	82,207	20,171,087
Institutional Support	12,068,776	274,316	4,250,217	1,638,663	1,706,817	1,807,499	1,931,472	23,677,760
Operation and Maintenance of Plant	8,278,467	76,565	3,082,756	1,081,898	-	-	11,529,336	24,049,022
Scholarships and Fellowships	492,970	-	-	85,591	6,928,112	-	-	7,506,673
Auxiliary Enterprises	2,368,964	23,839	8,676,513	1,004,586	-	-	8,155	12,082,057
Depreciation	-	-	-	-	-	-	283,694	283,694
<b>Total</b>	<b>135,722,817</b>	<b>4,604,175</b>	<b>34,283,443</b>	<b>12,255,772</b>	<b>12,540,284</b>	<b>1,807,499</b>	<b>16,450,219</b>	<b>217,664,209</b>

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Principles of Consolidation**

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

### **Organization**

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

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

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

### **Tax Exempt Status**

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

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

### **Estimates**

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

### **Consolidated Statement of Cash Flows**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for investment nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures of the Organization, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

### **Financial Instruments and Credit Risks**

The Organization manages deposit concentration risk by placing cash and cash equivalents with financial institutions believed by management to be credit worthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any other these accounts. Credit risk associated with promises to give and notes receivable are considered to be limited due to high historical collection rates and outstanding balances are primarily from donors and others that are supportive of the Organization's mission. Investments are managed by professional investment managers whose performance is monitored by management and the Foundation's Investment Committee of the Board of Directors. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of the donation. Thereafter, investments are recorded at their fair values in the consolidated statements of financial position. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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

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

### **Promises to Give**

Unconditional promises to give are initially recorded and subsequently carried at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

### **Contributions Receivable – Split Interest Agreements**

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

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

### **Operating Fixed Assets**

The Organization's operating fixed assets are recorded at cost or, if donated, at fair value on the date of donation and consist of an office building, furniture, and equipment. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Fixed assets are presented in the accompanying consolidated financial statements net of accumulated depreciation of \$1,197,956 and \$1,045,142 at December 31, 2019 and 2018, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 – 40 years.

The Organization reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value may not be recoverable from the estimated future cash flows expected to result from use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2019 and 2018.



**Other Fixed Assets Held**

The Organization's other fixed assets held consist of land, buildings, and an airplane that are either currently being used by USD in operations or will eventually be used to support USD. Fixed assets that are being used by USD in operations are presented in the accompanying consolidated financial statements at cost or, if donated, at fair value as of the date of the donation, net of accumulated depreciation of \$432,165 and \$374,969 at December 31, 2019 and 2018, respectively. Depreciation expense, which is reflected in the consolidated statements of activities as a reduction to other revenue, support, and gains, is provided using the straight-line method over the estimated useful lives of the assets, ranging from 10 – 30 years. Fixed assets held that are not currently being used by USD in operations are presented in the accompanying consolidated financial statements at cost or, if donated, at fair value as of the date of the donation and are periodically reviewed for impairment. For the years ended at December 31, 2019 and 2018, no impairment charge has been recorded.

**Gift Annuity and Life Income Agreements**

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions or a contribution with donor restrictions based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income. The estimated present value of future annuity payments to beneficiaries is \$413,144 and \$435,497 as of December 31, 2019 and 2018, respectively.

The Foundation's life income agreements consist of various irrevocable charitable remainder unitrusts, a charitable remainder annuity trust, and a charitable lead annuity trust over which the Foundation acts as trustee. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event. The trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions. Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income. The present value of life income agreements total \$3,763,773 and \$3,293,178 as of December 31, 2019 and 2018, respectively. The present value of future investment income distributions to beneficiaries is \$2,311,860 and \$1,999,840 as of December 31, 2019 and 2018, respectively.

### **Beneficial Interest Trusts**

The accompanying consolidated statements of activities include income from several irrevocable trusts administered by others. The assets of these trusts are not included in the consolidated statements of financial position because USD is the stated beneficiary of these trusts rather than the Organization. The market value on these trusts as of December 31, 2019 and 2018 was \$9,280,045 and \$7,941,283, respectively. For the years ended December 31, 2019 and 2018, the Organization received income from these trusts of \$345,985 and \$322,823, respectively.

### **Investments Held for Others**

The Foundation's investments include funds accepted for deposit from certain other non-profit organizations. The organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation (depreciation), upon giving 90 days written notice. Accordingly, their share of the asset managed funds is recorded as a liability in the accompanying consolidated statements of financial position. Investments held for others include amounts due to USD totaling \$1,263,067 and \$1,170,670 as of December 31, 2019 and 2018, respectively.

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

### **University Support**

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

### **Net Assets**

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

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

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

### **Revenue and Revenue Recognition**

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

Gifts received are recorded as without donor restriction support or with donor restricted support, depending on the existence or absence of donor restrictions. When a restriction expires, donor imposed restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

### **Donated Services and Assets**

Volunteers contribute significant amounts of time to the activities of the Organization; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

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

### **Functional Allocation of Expenses**

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

### Change in Accounting Policy

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

### Note 2 - Liquidity and Availability

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

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

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

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

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

### **Note 3 - Fair Value of Assets and Liabilities**

#### **Fair Value Measurements**

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset and liability, and market-corroborated inputs.

Level 3 – Unobservable inputs related to the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

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

# The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

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

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

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

	2019				Investments Measured at NAV
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equity co-mingled funds					
Private equity	\$ 42,715,815	\$ -	\$ -	\$ -	\$ 42,715,815
Government bonds	\$ 628,902	\$ -	\$ 628,902	\$ -	\$ -
All asset funds					
Domestic fixed income	\$ 3,122,119	\$ 3,122,119	\$ -	\$ -	\$ -
International equity	4,582,927	4,582,927	-	-	-
International fixed income	1,990,709	1,990,709	-	-	-
Alternatives	8,482,720	4,625,891	-	-	3,856,829
	<u>\$ 18,178,475</u>	<u>\$ 14,321,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,856,829</u>
Real estate limited partnerships	\$ 10,471,014	\$ -	\$ -	\$ -	\$ 10,471,014
Promises to give	\$ 11,210,226	\$ -	\$ -	\$ 11,210,226	\$ -
Contributions receivable - split interest agreements	\$ 7,908,360	\$ -	\$ -	\$ 7,908,360	\$ -
Liabilities					
Investments held for others	\$ 10,708,104	\$ -	\$ 10,708,104	\$ -	\$ -
	2018				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	\$ 28,220,480	\$ 28,220,480	\$ -	\$ -	\$ -
Certificates of deposit	\$ 842,104	\$ -	\$ 842,104	\$ -	\$ -
Equity securities					
Domestic equity					
Large cap	\$ 1,153,116	\$ 1,153,116	\$ -	\$ -	\$ -
Mid cap	122,786	122,786	-	-	-
Small cap	9,683	9,683	-	-	-
International equity	15,035	15,035	-	-	-
	<u>\$ 1,300,620</u>	<u>\$ 1,300,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Equity mutual funds					
Large cap equity	\$ 16,022,660	\$ 16,022,660	\$ -	\$ -	\$ -
Mid cap equity	6,776,424	6,776,424	-	-	-
Small cap equity	749,684	749,684	-	-	-
International equity	26,404,737	26,404,737	-	-	-
	<u>\$ 49,953,505</u>	<u>\$ 49,953,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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



# The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2019:

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

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2018:

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

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

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

# The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

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

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

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

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

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

Of the total unfunded commitments as of December 31, 2019, approximately \$647,000 were paid subsequent to year end.

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

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

**Note 4 - Promises to Give**

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

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

Conditional promises to give as of December 31, 2019 and 2018 of approximately \$15,760,000 and \$15,720,000, respectively, consist of promises to fund various USD projects and activities and are restricted by specific criteria designated by the donor. However, these conditional promises do not meet the criteria for being recognized as contributions revenue under accounting principles general accepted in the United States of America and, accordingly, have not been recognized. Recognition will occur when donor conditions have been met. Additionally, one conditional promise to give has a 1 to 1 match. Match amount is not included within the above conditional promises to give as the match will be received upon receipt of the conditional promise to give. As of December 31, 2019, the available match to be received is \$1,200,000.

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

**Note 5 - Notes Receivable**

As of December 31, 2019 and 2018, the Foundation has recorded a note receivable in the amount of \$2,000,000, respectively, from the South Dakota Science and Technology Authority which was issued to fund research by the borrower and is secured by the underlying Xenon gas purchased with the funds. Interest is payable quarterly at 2.5% with remaining principal and interest due December 2026.

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

**Note 6 - Endowments**

The Foundation's endowment consists of 1,297 individual funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds that the Foundation must hold in perpetuity, or for a donor specified period, as well as funds designated by the Board of Directors or the University of South Dakota to function as endowments (funds designated). Net assets associated with endowment funds, including funds designated, are classified and reported based on the existence or absence of donor imposed restrictions. Funds designated consist of non-endowed, donor restricted gifts that the Board of Directors have agreed to treat as endowments.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

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

# The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation and Board of Directors has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019, funds with original gift values of \$118,538, fair values of \$111,589 and deficiencies of \$6,949 were reported in net assets with donor restrictions. The fair values of the funds were equal to or greater than the original gift values. At December 31, 2018, funds with original gift values of \$45,716,093, fair values of \$44,668,002 and deficiencies of \$1,048,091 were reported in net assets with donor restrictions. The fair values of the funds were equal to or greater than the original gift values

## Investment and Spending Policies

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

To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment results are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

# The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

The Foundation has a policy of calculating an annual distribution from its endowment fund based on the average fair value over the period of 36 months through the fiscal year-end proceeding the fiscal year in which the appropriation is made and distribution is planned. The distribution rate is subject to review by the Board of Directors annually. For the years ended December 31, 2019 and 2018, the rate was 4.0%. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate that will maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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

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

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

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

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

Net assets without donor restrictions are summarized as follows:

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

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

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

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

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



The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

**Note 9 - Retirement Plan**

The Foundation maintains a retirement plan covering all full-time employees. Upon employment, employees who have achieved the age of 18 can defer a portion of their compensation as limited by current tax regulations. Employees who have completed one year and at least 1,000 hours of service are eligible to participate in any discretionary amounts the Foundation contributes to the plan. Currently, the Foundation matches 100% of employee contributions up to 6% of the eligible employees' salaries. Employees are 100% vested immediately in all contributions to the plan. The Foundation made contributions of \$134,485 and \$117,792 to the plan for the years ended December 31, 2019 and 2018, respectively.

The University of South Dakota Foundation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

**Note 10 - Functional Allocation of Expenses**

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

	2019			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 9,807,057	\$ -	\$ -	\$ 9,807,057
USD departmental expenses	3,640,674	-	-	3,640,674
USD building and equipment	7,005,575	-	-	7,005,575
Staffing	-	2,193,385	1,448,188	3,641,573
Engagement	-	194,003	431,756	625,759
Fundraising programs	-	-	331,228	331,228
Travel	-	94,183	226,838	321,021
Research	-	9,772	-	9,772
Board and professional services	-	196,070	-	196,070
Computer and technology	-	376,728	31,923	408,651
Occupancy	-	101,199	119,998	221,197
Depreciation	-	83,470	85,346	168,816
Office equipment and supplies	-	60,587	61,949	122,536
Other	-	59,339	30,725	90,064
USD fundraising	-	-	57,364	57,364
Property management	-	20,813	-	20,813
	<u>\$ 20,453,306</u>	<u>\$ 3,389,549</u>	<u>\$ 2,825,315</u>	<u>\$ 26,668,170</u>

	2018			
	Program Services	Administrative and General	Fundraising	Total
Scholarships	\$ 7,555,928	\$ -	\$ -	\$ 7,555,928
USD departmental expenses	3,516,639	-	-	3,516,639
USD building and equipment	2,530,577	-	-	2,530,577
Staffing	-	2,774,561	1,389,290	4,163,851
Engagement	-	617,964	247,416	865,380
Fundraising programs	-	-	249,651	249,651
Travel	-	296,769	208,643	505,412
Research	-	55,901	-	55,901
Campaign consultant	-	60,206	32,419	92,625
Board and professional services	-	179,317	-	179,317
Computer and technology	-	316,300	6,307	322,607
Occupancy	-	194,723	104,851	299,574
Depreciation	-	105,799	56,969	162,768
Office equipment and supplies	-	54,671	29,438	84,109
Other	-	62,941	10,842	73,783
USD fundraising	-	-	151,967	151,967
Property management	-	37,428	-	37,428
	<u>\$ 13,603,144</u>	<u>\$ 4,756,580</u>	<u>\$ 2,487,793</u>	<u>\$ 20,847,517</u>

## Note 11 - Commitments and Contingencies

### Conditional Gift

The Foundation has entered into an agreement with a major health care system and USD under which the Foundation will receive a total of \$10,180,000 over a period of thirty years. A gift of approximately \$8,398,000 was recorded in a prior year based on the estimated net present value of the cash payments specified in the agreement. As of December 31, 2019, total payments of \$10,080,000 had been received, with the remaining \$100,000 outstanding due in annual payments of \$10,000 through May 2029. The agreement requires that a pro-rata portion of the gift be paid back to the health care system should USD default on its obligation to allow the health care system to use its name. As of December 31, 2019, approximately \$3,632,670 of the gift is subject to repayment. No liability has been recognized for this contingency because the Foundation and USD believe the likelihood of defaulting on the obligation is remote.

### Pledged Collateral

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

### Leases

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

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

### Commitments

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

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

### **Line of Credit**

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

### **Note 12 - Subsequent Events**

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

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

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