

Sioux Falls Area Community Foundation, Inc.

Financial Report
June 30, 2011

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Independent Auditor's Report

To the Board of Directors
Sioux Falls Area Community Foundation, Inc.
Sioux Falls, South Dakota

We have audited the accompanying statements of financial position of the Sioux Falls Area Community Foundation, Inc. (Foundation) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sioux Falls Area Community Foundation, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Sioux Falls, South Dakota
September 16, 2011

Sioux Falls Area Community Foundation, Inc.

Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 8,848,683	\$ 2,911,702
Interest and dividends receivable	96,574	95,086
Contributions receivable	415,270	5,100,270
Prepaid expenses and other assets	4,447	3,824
Investments:		
Certificates of deposit (Note 5)	5,801,151	4,412,516
Securities (Note 2)	67,926,573	51,449,556
Cash surrender value of life insurance (Note 9)	4,376,962	3,759,988
Furniture, equipment and software, net (Note 6)	8,597	9,358
Total assets	\$ 87,478,257	\$ 67,742,300
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 48,029	\$ 49,625
Grants payable	240,424	272,690
Charitable gift annuities payable (Note 10)	559,043	683,344
Deferred contribution	7,353	28,459
Split-interest agreements	1,442,890	1,229,526
Assets held for others	13,701,091	10,249,860
Total liabilities	15,998,830	12,513,504
Net Assets (Notes 7 and 8)		
Unrestricted	64,340,665	49,075,239
Temporarily restricted	2,694,479	6,111,284
Permanently restricted	4,444,283	42,273
Total net assets	71,479,427	55,228,796
Total liabilities and net assets	\$ 87,478,257	\$ 67,742,300

See Notes to Financial Statements.

Sioux Falls Area Community Foundation, Inc.

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains (losses) and support:								
Contributions	\$ 18,656,375	\$ 450,270	\$ 246,443	\$ 19,353,088	\$ 5,395,914	\$ 5,160,270	\$ -	\$ 10,556,184
Contributions designated for specific organizations	(2,905,560)	(60,627)	-	(2,966,187)	(165,753)	(284,197)	-	(449,950)
Investment return (Note 3)	11,633,134	559,408	155,567	12,348,109	5,945,218	234,862	-	6,180,080
Investment return designated for specific organizations	(2,252,709)	-	-	(2,252,709)	(1,117,132)	-	-	(1,117,132)
Change in value of split-interest agreements	-	(198,121)	-	(198,121)	-	(195,312)	-	(195,312)
Change in value of charitable gift annuities payable	17,787	-	-	17,787	(59,243)	-	-	(59,243)
Increase in cash surrender value of life insurance	316,830	-	-	316,830	270,897	-	-	270,897
Other	810	-	-	810	5,775	-	-	5,775
Net asset reclassification (Note 13)	-	(4,000,000)	4,000,000	-	-	-	-	-
Net assets released from restrictions	167,735	(167,735)	-	-	125,127	(125,127)	-	-
Total revenue, gains (losses) and support	25,634,402	(3,416,805)	4,402,010	26,619,607	10,400,803	4,790,496	-	15,191,299
Distributions and expenses:								
Grants	10,896,855	-	-	10,896,855	4,999,808	-	-	4,999,808
Grants remitted on behalf of specific organizations	(1,602,916)	-	-	(1,602,916)	(347,013)	-	-	(347,013)
Investment fees	109,199	-	-	109,199	106,031	-	-	106,031
Special project expenses	26,541	-	-	26,541	81,996	-	-	81,996
Direct fund expenses	26,017	-	-	26,017	58,768	-	-	58,768
Expenses incurred on behalf of specific organizations	(104,124)	-	-	(104,124)	(173,852)	-	-	(173,852)
Life insurance premiums	209,925	-	-	209,925	206,050	-	-	206,050
Fund services	322,096	-	-	322,096	333,080	-	-	333,080
Management and general	144,102	-	-	144,102	150,156	-	-	150,156
Asset development and fundraising	341,281	-	-	341,281	328,370	-	-	328,370
Total distributions and expenses	10,368,976	-	-	10,368,976	5,743,394	-	-	5,743,394
Change in net assets	15,265,426	(3,416,805)	4,402,010	16,250,631	4,657,409	4,790,496	-	9,447,905
Net assets, beginning of year	49,075,239	6,111,284	42,273	55,228,796	44,417,830	1,320,788	42,273	45,780,891
Net assets, end of year	\$ 64,340,665	\$ 2,694,479	\$ 4,444,283	\$ 71,479,427	\$ 49,075,239	\$ 6,111,284	\$ 42,273	\$ 55,228,796

See Notes to Financial Statements.

Sioux Falls Area Community Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 16,250,631	\$ 9,447,905
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,002	8,009
Net unrealized gain in fair value of investments	(10,015,283)	(4,735,542)
Realized (gains) losses on sale of investments	(775,808)	80,905
Donated securities	(16,909,461)	(1,582,499)
Change in charitable gift annuities payable	(17,787)	59,243
Change in value of split-interest agreements	213,364	482,461
Change in cash surrender value of life insurance	(407,049)	(51,426)
Change in value of assets held for others	2,148,587	943,278
Change in assets and liabilities:		
Interest and dividends receivable	(1,488)	17,150
Contributions receivable	3,616,253	(5,025,000)
Prepaid expenses and other assets	(623)	4,470
Accounts payable and accrued liabilities	(1,596)	8,961
Grants payable	(32,266)	(5,707)
Deferred contribution	(21,106)	(26,541)
Net cash used in operating activities	(5,948,630)	(374,333)
Cash Flows From Investing Activities		
Purchase of furniture, equipment and software	(4,241)	-
Premiums paid for life insurance policies	(209,925)	(206,050)
Proceeds from sale and maturities of investment securities and certificates of deposit	32,955,071	18,210,956
Purchase of investment securities and certificates of deposit	(23,120,171)	(19,005,625)
Net cash provided by (used in) investing activities	9,620,734	(1,000,719)
Cash Flows from Financing Activities		
Payment of charitable gift annuities payable	(106,514)	(106,514)
Contributions designated for specific organizations	2,905,560	165,753
Contributions received restricted for long-term investment	1,068,747	-
Grants remitted on behalf of specific organizations	(1,602,916)	(347,013)
Net cash provided by (used in) financing activities	2,264,877	(287,774)
Net increase (decrease) in cash and cash equivalents	5,936,981	(1,662,826)
Cash and Cash Equivalents		
Beginning	2,911,702	4,574,528
Ending	\$ 8,848,683	\$ 2,911,702

See Notes to Financial Statements.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Sioux Falls Area Community Foundation, Inc. (Foundation) was established to build and preserve endowment funds for the support of community needs. By virtue of this purpose and its sources of support, the Foundation is classified as a publicly supported charity and not a private foundation. The Foundation is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code.

A summary of the Foundation's significant accounting policies is as follows:

Basis of presentation: The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Foundation also follows the recommendations made by the FASB Committee of Fiscal and Administrative Officers Group (FAOG) of the Council on Foundations, set forth in its "Report on Classification of Net Assets by Community Foundations" the (FAOG Report), issued September 1997. FAOG recommended that, generally, net assets of community foundations be classified as unrestricted with certain limited exceptions. Funds subject to time restriction, including most split-interest arrangements, are classified as permanently restricted only when both of the following conditions are met:

- The donor gift instrument does not permit invasion of the principal, and,
- The governing documents of the community foundation do not provide for the invasion of corpus.

The Foundation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, any fund established with the Foundation by a not-for-profit organization for its own benefit with its own funds is classified as an agency fund. The Foundation is required to report any funds deemed to be agency funds as an asset with a corresponding liability due to the other organization. The Foundation also records a liability for assets held for other organizations when variance power is not granted by the donor.

Use of estimates: The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Revenue recognition: Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions of split-interest agreements are recorded at their fair value when received.

Under the terms of the governing instruments of the Foundation, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not specifically restricted by the gift instrument are classified as unrestricted net assets for financial statement purposes. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement. Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, if the corpus never becomes available for spending it will be reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are received.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (continued)

Cash and cash equivalents: For purposes of reporting cash flows, the Foundation considers highly-liquid securities with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market accounts, commercial paper and treasury bills with original maturities of three months or less. The Foundation maintains account balances in area financial institutions that are in excess of federally insured limits of \$250,000.

Investment securities: Investments in equity securities with readily determinable fair values and all debt securities are presented in the financial statements at fair value, with gains and losses included in the statements of activities. Fair values are based upon quoted market prices. If quoted market prices are not available, fair values are based upon quoted market prices of comparable instruments or by discounted cash flow models. Alternative asset funds consist of fund of funds investment partnerships and are stated at fair value, which have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment fund managers, principally with respect to the net asset value of the respective investment partnerships. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Net gains on investments carried at fair value include realized and unrealized gains and losses. Investments in certificates of deposit are carried at cost. The fair value of certificates of deposit are not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on their fair value. No such events or circumstances have occurred during 2011 or 2010. The Foundation is exempt from estimating and disclosing fair values of financial instruments that are not carried at fair value, such as certificates of deposit, under applicable accounting standards.

Cash surrender value of life insurance: The Foundation is beneficiary of life insurance policies on the lives of certain donors. Premiums paid by donors insured are recorded as contributions received. Premiums paid by the Foundation are recorded as life insurance premiums expense.

Furniture, equipment and software: These assets are stated at cost or estimated fair value at the date received. Expenditures for the acquisition of furniture, equipment and software over \$1,000 are capitalized at cost. Expenditures for maintenance and repairs are charged to expense in the year incurred. Depreciation is computed on the straight-line method over estimated useful lives of three to five years.

Grants payable: Grants payable consist of amounts awarded, but not paid, to various individuals and nonprofit organizations. These grants are generally to be paid in the following year.

Deferred contribution: Grant income received is recorded as a liability until funds are expended for the intended purpose.

Split-interest agreements: Donors have established charitable remainder trusts naming the Foundation as a remaining trust beneficiary. Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms. At the end of the trusts' terms, a portion of the remaining assets are to be available for the Foundation's use, subject to the donors' charitable intentions. Since the Foundation is the primary trustee of the funds, the Foundation recognizes the fair value of investments in the trusts and records a liability for the fair value of estimated future payments due other beneficiaries.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (continued)

Donated services: Donation of services is recorded as revenue and expense if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no donated professional services for the year ended June 30, 2011 and donated professional services totaled \$161 for the year ended June 30, 2010.

Marketing and communication costs: Marketing and communication costs are expensed as incurred. Marketing and communication expense was \$59,525 and \$61,637 for the years ended June 30, 2011 and 2010, respectively.

Income tax status: The Foundation is a tax exempt organization under section 501(c)(3) of the Internal Revenue Code. The State of South Dakota has no income tax; however, the Foundation is required to pay income tax on its unrelated business income primarily resulting from owning "S" Corporation stock. The Foundation paid no income tax for the years ended June 30, 2011 and 2010.

The Foundation files a Form 990 tax return in the U.S. federal jurisdiction. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for tax years prior to the year ended June 30, 2008. The Foundation has no federal or state tax examinations currently in process.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements.

Joint fundraising costs: The Foundation achieves some of its endowment and management goals through the solicitation of contributions. The costs of conducting those campaigns include joint costs that are not directly attributable to either the endowment or management. Total costs of \$341,281 and \$328,370 were allocated to endowment development and fundraising for the years ended June 30, 2011 and 2010, respectively.

Subsequent events: Subsequent events were evaluated through September 16, 2011, the date these financial statements were available to be issued.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 2. Investment in Securities

A summary of investments by major investment type as of June 30, 2011 and 2010 is as follows:

	June 30, 2011		
	Cost	Unrealized Gains or (Losses), Net	Fair Value
Government bonds, notes and funds	\$ 5,298,196	\$ 300,906	\$ 5,599,102
Nongovernmental bonds and bond funds	10,308,112	404,078	10,712,190
Balanced funds	705,268	30,215	735,483
Equity funds	36,307,607	5,188,214	41,495,821
Real asset funds	3,439,641	569,948	4,009,589
Alternative asset funds	4,785,599	504,388	5,289,987
Preferred and S-corporation stock	119,330	(34,929)	84,401
	<u>\$ 60,963,753</u>	<u>\$ 6,962,820</u>	<u>\$ 67,926,573</u>

	June 30, 2010		
	Cost	Unrealized Gains or (Losses), Net	Fair Value
Government bonds, notes and funds	\$ 6,050,991	\$ 267,485	\$ 6,318,476
Nongovernmental bonds and bond funds	5,197,325	581,222	5,778,547
Balanced funds	467,136	(18,892)	448,244
Equity funds	34,438,290	(3,301,091)	31,137,199
Real asset funds	3,123,146	(225,145)	2,898,001
Alternative asset funds	4,810,609	(42,848)	4,767,761
Preferred and S-corporation stock	132,468	(31,140)	101,328
	<u>\$ 54,219,965</u>	<u>\$ (2,770,409)</u>	<u>\$ 51,449,556</u>

Market volatility of marketable investment securities may substantially impact the value of such investments at any given time. It is possible that the value of the Foundation's investments has changed significantly since June 30, 2011.

Note 3. Investment Return

The investment return for the years ended June 30, 2011 and 2010 consist of the following components:

	2011	2010
Interest and dividends	\$ 1,557,018	\$ 1,525,443
Net realized gains (losses)	775,808	(80,905)
Unrealized net gains in fair value of investment securities	10,015,283	4,735,542
	<u>\$ 12,348,109</u>	<u>\$ 6,180,080</u>

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 4. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. ASC 820 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs to the valuation methodology are unobservable, corroborated by little or no market data and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table summarizes by level, within the fair value hierarchy, the Foundation's assets and liabilities that are valued at fair value on a recurring basis at June 30, 2011:

	2011			
	Level 1	Level 2	Level 3	Total
Government bonds, notes and funds	\$ 5,599,102	\$ -	\$ -	\$ 5,599,102
Nongovernmental bonds and bond funds	10,712,190	-	-	10,712,190
Balanced funds	735,483	-	-	735,483
Equity funds	41,495,821	-	-	41,495,821
Real asset funds	4,009,589	-	-	4,009,589
Alternative asset funds	-	-	5,289,987	5,289,987
Preferred and S-corporation stock	29,401	55,000	-	84,401
Total investments valued at fair value	62,581,586	55,000	5,289,987	67,926,573
Split-interest agreements	-	(1,442,890)	-	(1,442,890)
Assets held for others liability	-	(13,701,091)	-	(13,701,091)

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 4. Fair Value Measurements (continued)

The following table provides a summary of redemption restrictions of alternative asset funds at June 30, 2011 and 2010:

Investment Strategy	Redemption Restrictions	Fair Value	
		2011	2010
Distressed debt	Limited to realizations of longer-term investments during the year, redeemable annually at December 31 with 120 days notice.	\$ 1,273,662	\$ 1,086,774
Marketable alternatives	Quarterly to semi-annual redemptions subject to 95 and 180 days notice. Redemptions may be suspended.	2,774,734	2,615,422
Mixed asset (distressed debt and public and private investments in real estate, natural resources and equities)	Annually subject to 180 day's notice. Redemption may be restricted to 20% of the balance.	1,241,591	1,065,565
		\$ 5,289,987	\$ 4,767,761

The following table summarizes by level, within the fair value hierarchy, the Foundation's assets and liabilities that are valued at fair value on a recurring basis at June 30, 2010:

	2010			
	Level 1	Level 2	Level 3	Total
Government bonds, notes and funds	\$ 6,318,476	\$ -	\$ -	\$ 6,318,476
Nongovernmental bonds and bond funds	5,778,547	-	-	5,778,547
Balanced funds	448,244	-	-	448,244
Equity funds	31,137,199	-	-	31,137,199
Real asset funds	2,898,001	-	-	2,898,001
Alternative asset funds	-	-	4,767,761	4,767,761
Preferred and S-corporation stock	46,328	55,000	-	101,328
Total investments valued at fair value	46,626,795	55,000	4,767,761	51,449,556
Split-interest agreements	-	(1,229,526)	-	(1,229,526)
Assets held for others liability	-	(10,249,860)	-	(10,249,860)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Alternative Asset Funds	
	2011	2010
Balance, beginning	\$ 4,767,761	\$ 4,067,530
Total net gains	545,637	604,214
Purchases	54,979	113,012
Fees	(18,146)	(16,995)
Distribution	(60,244)	-
Balance, ending	\$ 5,289,987	\$ 4,767,761

Net unrealized gains included in net income for the period relating to assets held at June 30, 2011 and 2010 were \$545,637 and \$604,214, respectively.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 5. Certificates of Deposit

The Foundation had certificates of deposit at various financial institutions of \$5,801,151 and \$4,412,516 at June 30, 2011 and 2010, respectively. The certificates are carried at cost. The certificates bear interest rates ranging from 0.97% to 2.62% and have maturity dates ranging from July 2011 to May 2016, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 6. Furniture, Equipment and Software

	2011	2010
Furniture, equipment and software	\$ 100,832	\$ 96,591
Less accumulated depreciation	(92,235)	(87,233)
	<u>\$ 8,597</u>	<u>\$ 9,358</u>

Note 7. Board Designated and Restricted Net Assets

The Board has designated unrestricted net assets for future capital expenditures. The cash flow needs for capital expenditures fluctuate significantly from year to year. By establishing and maintaining this reserve, funds should be available to purchase capital items when needed by the Foundation. Operating surpluses and annual depreciation expense can be used to fund this reserve. The capital expenditure reserve balance as of June 30, 2011 and 2010 was \$30,000.

The Board has designated unrestricted operating net assets as a charitable gift annuities reserve. The reserve balances include investment income. The Foundation intends to maintain this reserve at a minimum of 10% of charitable gift annuities payable. Also, 10% of the residuum of new charitable gift annuities are added to the reserve. The charitable gift annuities reserve was \$111,035 and \$109,958 and as of June 30, 2011 and 2010, respectively.

Temporarily restricted net assets include contributions receivable due from bequests, all assets related to split-interest agreements, time or use restricted endowment funds, and all resources accumulated through donations from the Sioux Empire United Way for specific operating purposes. The Foundation has entered into an agreement with the Sioux Empire United Way that provides the Foundation with an annual allocation of \$120,000. The annual agreement begins January 1 and expires on December 31. The total amount receivable at June 30, 2011 and 2010 was \$60,000. Such resources become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or the passage of time.

The Foundation has classified two endowment funds as permanently restricted as of June 30, 2011. The donors stipulated that the principal of the endowments is to be invested and not used for other purposes and the Foundation agreed to these stipulations. Therefore, the contributions have been classified as permanently restricted.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 8. Endowment Funds

The Foundation's Board of Directors, on the advice of legal counsel, has determined that the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the 2007 South Dakota legislature, does not apply to the majority of the Foundation's assets. The Foundation is governed subject to the Foundation's articles of incorporation and by-laws and most contributions are subject to its terms. Certain contributions are received subject to other trust instruments, or are subject to specific agreements with the Foundation. Until the gift matures, insurance and charitable gift annuities are classified as non-endowment funds.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to beneficiaries while seeking to mitigate the loss of purchasing power of the endowment assets.

The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The Foundation's investment objective is to achieve a real rate of return net of fees equal to or greater than the spending rate over the long-term. Actual returns may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both 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 return objectives within prudent risk parameters.

The Foundation's spending policy affects the amount of money annually distributed from various endowed funds for grantmaking. The current spending policy is a maximum annual distribution of up to 5 percent per year of a fund's asset value over a three-year moving average. This is consistent with the Foundation's objective to mitigate the loss of purchasing power due to inflation, fees, and investment risk, as well as to provide additional real growth through new gifts and investment return.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 8. Endowment Funds (continued)

The following summarizes net asset composition by type of fund at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds:				
Donor designated endowment funds	\$ 17,420,014	\$ 377,104	\$ 42,273	\$ 17,839,391
Other endowment funds:				
Field of interest	2,249,011	1,038,087	4,402,010	7,689,108
Donor advised	12,424,411	106,895	-	12,531,306
Scholarships	6,656,790	155,270	-	6,812,060
Undesignated	7,488,781	-	-	7,488,781
Total other endowment funds	28,818,993	1,300,252	4,402,010	34,521,255
Total endowment funds	46,239,007	1,677,356	4,444,283	52,360,646
Non-endowment funds:				
Donor advised	12,455,197	-	-	12,455,197
Designated	375,000	-	-	375,000
Undesignated	108,561	-	-	108,561
Insurance	4,392,464	-	-	4,392,464
Charitable gift annuities	179,455	-	-	179,455
Split interest agreements	-	957,123	-	957,123
Operating	590,981	60,000	-	650,981
Total non-endowment funds	18,101,658	1,017,123	-	19,118,781
Total funds	\$ 64,340,665	\$ 2,694,479	\$ 4,444,283	\$ 71,479,427

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 8. Endowment Funds (continued)

The following summarizes net asset composition by type of fund at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds:				
Donor designated endowment funds	\$ 14,682,657	\$ 140,313	\$ 42,273	\$ 14,865,243
Other endowment funds:				
Field of interest	1,827,374	5,000,000	-	6,827,374
Donor advised	9,513,996	87,447	-	9,601,443
Scholarships	5,104,435	40,269	-	5,144,704
Undesignated	6,112,023	-	-	6,112,023
Total other endowment funds	22,557,828	5,127,716	-	27,685,544
Total endowment funds	37,240,485	5,268,029	42,273	42,550,787
Non-endowment funds:				
Donor advised	7,407,300	-	-	7,407,300
Undesignated	80,524	-	-	80,524
Insurance	3,763,553	-	-	3,763,553
Charitable gift annuities	63,768	-	-	63,768
Split interest agreements	-	783,255	-	783,255
Operating	519,609	60,000	-	579,609
Total non-endowment funds	11,834,754	843,255	-	12,678,009
Total funds	\$ 49,075,239	\$ 6,111,284	\$ 42,273	\$ 55,228,796

The following summarizes changes in the endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 37,240,485	\$ 5,268,029	\$ 42,273	\$ 42,550,787
Contributions and transfers in	2,509,271	330,270	246,443	3,085,984
Investment return	8,772,804	119,749	155,567	9,048,120
Net asset reclassification (Note 13)	-	(4,000,000)	4,000,000	-
Assets released from restrictions	40,692	(40,692)	-	-
Grants and transfers out	(1,834,838)	-	-	(1,834,838)
Fees and other expenses	(489,407)	-	-	(489,407)
Change in endowed net assets	8,998,522	(3,590,673)	4,402,010	9,809,859
Endowment net assets, end of year	\$ 46,239,007	\$ 1,677,356	\$ 4,444,283	\$ 52,360,646

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 8. Endowment Funds (continued)

The following summarizes changes in the endowment net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 33,562,518	\$ 203,487	\$ 42,273	\$ 33,808,278
Contributions and transfers in	1,190,577	5,040,270	-	6,230,847
Investment return	4,387,653	26,446	-	4,414,099
Assets released from restrictions	2,174	(2,174)	-	-
Grants and transfers out	(1,499,194)	-	-	(1,499,194)
Fees and other expenses	(403,243)	-	-	(403,243)
Change in endowed net assets	3,677,967	5,064,542	-	8,742,509
Endowment net assets, end of year	\$ 37,240,485	\$ 5,268,029	\$ 42,273	\$ 42,550,787

From time to time, the fair value of endowment funds 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, (i.e. underwater endowments). Losses on permanently restricted endowment investments are first used to reduce previous investment income and gains which have not been expended. Any additional losses are shown as a reduction in unrestricted net assets. At June 30, 2010, unrestricted net assets have been reduced by \$3,742 for such cumulative losses. This deficiency resulted from unfavorable market fluctuations. Investment gains during the year ended June 30, 2011 restored the fair value of investments to the donor specified amounts. No such reduction in unrestricted net assets was necessary at June 30, 2011.

Note 9. Cash Surrender Value of Life Insurance

The Foundation is the owner and beneficiary of life insurance policies that insure the lives of various donors. The face value of the policies was approximately \$33,860,000 and \$33,060,000 at June 30, 2011 and 2010, respectively. The cash surrender value of the policies was \$4,376,962 and \$3,759,988 as of June 30, 2011 and 2010, respectively. Premiums of \$209,925 and \$206,050 were paid in the years ended June 30, 2011 and 2010, respectively, solely paid for by contributions received from the insured donors.

Note 10. Charitable Gift Annuities Payable

Donors have established charitable gift annuities with the Foundation. At the time of each gift, assets are recorded at fair value and a liability is recorded for the present value of future payments to be made to the designated beneficiaries. Charitable gift annuities provide for the payment of a fixed amount for a specified time to individuals designated by the donor in exchange for assets contributed to the Foundation. The charitable gift annuities payment rate ranges from 5.50% to 11.30% of the assets recorded. At the end of the agreement, the remaining assets, if any, are to be available for the Foundation's use, subject to donor intentions. On an annual basis at June 30, the Foundation revalues the liabilities, using the discount rate determined at the time of the gift and new life expectancies of the donor beneficiaries, and records a change in value of charitable gift annuities payable in the statement of activities. The present value of future payments estimated to be made under these agreements was \$559,043 and \$683,344 at June 30, 2011 and 2010, respectively. The gift annuity funds consist of cash and securities totaling \$740,261 and \$748,938 as of June 30, 2011 and 2010, respectively.

Sioux Falls Area Community Foundation, Inc.

Notes to Financial Statements

Note 11. Retirement Plan

The Foundation has a defined contribution retirement plan for those employees who meet the eligibility requirements set forth in the plan. The Foundation contributed 10.0% of eligible compensation for each participant for the years ended June 30, 2011 and 2010. Retirement plan expense was \$37,840 and \$44,311 for the years ended June 30, 2011 and 2010, respectively.

Note 12. Office Lease

The Foundation leases office space under an operating lease that was renewed on June 1, 2011 effective until May 31, 2012. The monthly rental rate is \$4,736 under the renewed lease. Total rental expense for the years ended June 30, 2011 and 2010 was \$53,143 and \$54,006, respectively.

Note 13. Net Asset Reclassification

The Foundation received the rights to a bequest upon the death of a donor in May 2010. The amount of assets received by the Foundation was \$5,246,443. This bequest was recognized at its estimated fair value of \$5,000,000 as of May 2010 as a temporarily restricted gift and a contribution receivable as of and for the year ended June 30, 2010. After the assets were received, the Foundation completed its review of the terms of the agreement regarding the restrictions relating to this gift, and the classification of a portion of these funds was changed during the year ended June 30, 2011. As such, a reclassification of \$4,000,000 from temporarily restricted net assets to permanently restricted net assets was recognized on the statement of activities and changes in net assets.



Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Sioux Fall Area Community Foundation, Inc.
Sioux Falls, South Dakota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Sioux Falls, South Dakota
September 16, 2011

Sioux Falls Area Community Foundation, Inc.

Schedule of Functional Expenses - Operating Fund
Year Ended June 30, 2011 with Comparative Totals for 2010

	Fund	Management	Asset Development and	Total	
	Services	and General	Fundraising	2011	2010
Salaries	\$ 199,604	\$ 86,193	\$ 167,849	\$ 453,646	\$ 466,196
Payroll taxes and benefits	53,894	23,272	45,320	122,486	121,412
Office rent	21,257	10,629	21,257	53,143	54,006
Communications	3,348	-	30,133	33,481	29,979
Professional fees	7,594	7,594	15,189	30,377	28,243
Marketing	2,604	-	23,440	26,044	31,658
Software, equipment and maintenance	10,202	5,102	10,202	25,506	24,171
Supplies	5,822	2,910	5,822	14,554	11,817
National organization dues	4,892	2,446	4,892	12,230	7,540
Postage and shipping	3,456	863	4,320	8,639	8,754
Staff and board development	3,058	1,530	3,058	7,646	5,223
Insurance	2,322	1,160	2,322	5,804	5,415
Depreciation	2,001	1,000	2,001	5,002	8,009
Telephone	1,237	619	1,237	3,093	3,099
Organization dues	381	-	1,522	1,903	1,895
Reference materials	424	211	424	1,059	1,184
Miscellaneous	-	573	2,293	2,866	3,005
Total expenses	\$ 322,096	\$ 144,102	\$ 341,281	\$ 807,479	\$ 811,606

Sioux Falls Area Community Foundation, Inc.

**Statements of Activities and Changes in Net Assets - Operating Fund
Years Ended June 30, 2011 and 2010**

	2011	2010
Revenue, gains and support:		
Contributions	\$ 72,000	\$ 65,423
Sioux Empire United Way contributions	120,000	120,000
Investment return	6,690	6,947
Management fees	632,976	531,451
Kresge endowment	33,013	34,952
Administrative endowments	14,163	14,468
Other	10	485
Total revenue, gains, and support	878,852	773,726
Distributions and expenses:		
Fund services	322,096	333,080
Management and general	144,102	150,156
Asset development and fundraising	341,281	328,370
Total distributions and expenses	807,479	811,606
Change in net assets	71,373	(37,880)
Net assets, beginning of year	579,608	617,488
Net assets, end of year	\$ 650,981	\$ 579,608
Net assets consist of:		
Unrestricted and undesignated	\$ 449,946	\$ 379,650
Unrestricted and board designated for capital expenditures	30,000	30,000
Unrestricted and board designated for charitable gift annuities payable reserve	111,035	109,958
Temporarily restricted	60,000	60,000
Total net assets	\$ 650,981	\$ 579,608