



**Dakota State University**

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**Financial Report**  
**2015**

**DAKOTA STATE UNIVERSITY  
FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2015**

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**DAKOTA STATE UNIVERSITY**

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March 1, 2016

Dr. Michael G. Rush  
Executive Director  
South Dakota Board of Regents  
306 East Capitol Ave, Suite 200  
Pierre, SD 57501

Dear Dr. Rush:

The financial report of Dakota State University for the fiscal year 2015 is presented in the following pages. This report covers all phases of the financial transactions of the University for the twelve-month period ending June 30, 2015.

Sincerely,

A handwritten signature in black ink that reads "J. M. Griffiths". The signature is written in a cursive style.

Dr. José-Marie Griffiths  
President  
Dakota State University



March 1, 2016

Dr. José-Marie Griffiths  
President  
Dakota State University

Dear Dr. Griffiths:

The financial report of Dakota State University for the year ending June 30, 2015 is presented in the following pages.

The accounts of Dakota State University are maintained and its reports presented in accordance with the standards issued by the Governmental Accounting Standards Board (GASB). The format provides a comprehensive view of the financial operations of the University as a whole.

The Dakota State University Foundation is a legally separate non-for-profit organization dedicated to maximizing other resources for University programs. The Foundation's financial statements, audited by an independent certified public accountant, are included in the report as it has been determined to be a component unit of the University based on the provision of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units.

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 Dakota State University for the fiscal year ending June 30, 2015.

Sincerely,

A handwritten signature in blue ink that reads "Stacy Krusemark".

Stacy Krusemark  
Vice President for Business and Administrative Services

**DAKOTA STATE UNIVERSITY**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDING JUNE 30, 2015**

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# **DAKOTA STATE UNIVERSITY**

## **Financial Statements**

### **Management's Discussion and Analysis**

This section of Dakota State University's annual financial report presents management's discussion and analysis of the University's financial operations during the fiscal year ended June 30, 2015. The discussion and analysis should be read in conjunction with the accompanying financial statements and footnotes. The accuracy of the financial statements, footnote disclosures and discussion are the responsibility of University management.

### **Reporting Entity**

Dakota State University is one of six public universities under the control of the South Dakota Board of Regents. The public universities are considered a component unit of the State of South Dakota and are reported as such in the State's comprehensive annual financial report.

The financial operations of Dakota State University are audited as a part of the State of South Dakota. 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.

### **Using the Annual Report**

The accompanying statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) 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 Changes 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 Statement of Net Position reports the difference in assets and liabilities and is one way of measuring the University's financial position. Non-financial measurements such as enrollment and condition of the facilities serving the students should also be taken into consideration.

The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are considered operating or non-operating. In accordance with GASB requirements, state appropriations have been classified as non-operating revenues resulting in a net operating loss being reported. The financial statements also include an allowance for depreciation expense, which is the amortization of the cost of a capital asset over its estimated useful life.

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.

### Financial Highlights

From the prior year, current assets increased \$680,000, 9.21%. The 2004 series bonds were refinanced with the 2014B series. This resulted in savings on the annual payment and \$250,000 being moved from non-current to current as there is not a requirement for debt service on the new issue. An increase in self-support credit hours and a rate increase added to the increase in cash balance. Non-current assets decreased \$1 million, -4.24%. This consists of decreases of \$250,000 from the bond refinance, \$100,000 in notes receivables and a net of \$700,000 in capital assets additions/decreases.

Total liabilities decreased by \$16,000, -.12%, between FY14 and FY15. Current liability increases of \$112,000 in accrued wages and \$346,000 in deferred revenue were offset by non-current liability decreases of \$624,000 in bonds payable due to the bond refinancing.

### Condensed Statement of Net Position as of June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>
<b>Assets</b>		
Current Assets	\$ 8,073,909	\$ 7,392,765
Noncurrent Assets	\$ 23,961,808	\$ 25,055,680
Total Assets	<u>\$ 32,035,717</u>	<u>\$ 32,448,445</u>
<b>Liabilities</b>		
Current Liabilities	\$ 3,986,178	\$ 3,419,352
Noncurrent Liabilities	\$ 9,148,011	\$ 9,730,590
Total Liabilities	<u>\$ 13,134,188</u>	<u>\$ 13,149,942</u>
<b>Net Position</b>		
Invested in Capital, Net of Related Debt	\$ 16,832,319	\$ 16,893,200
Restricted	\$ 500,669	\$ 836,369
Unrestricted	\$ 1,568,542	\$ 1,568,934
Total Net Assets	<u>\$ 18,901,529</u>	<u>\$ 19,298,502</u>

Investment in capital assets represents the depreciated balance of buildings, land improvements and infrastructure, and equipment. Assets restricted for loans, grants and debt service represent assets that the University may only use for allowable activities related to each of those funds. Unrestricted assets may be used for the general operations of the University.

**Condensed Statement of Revenues, Expenses and Changes in Net Position  
as of June 30, 2015 and 2014**

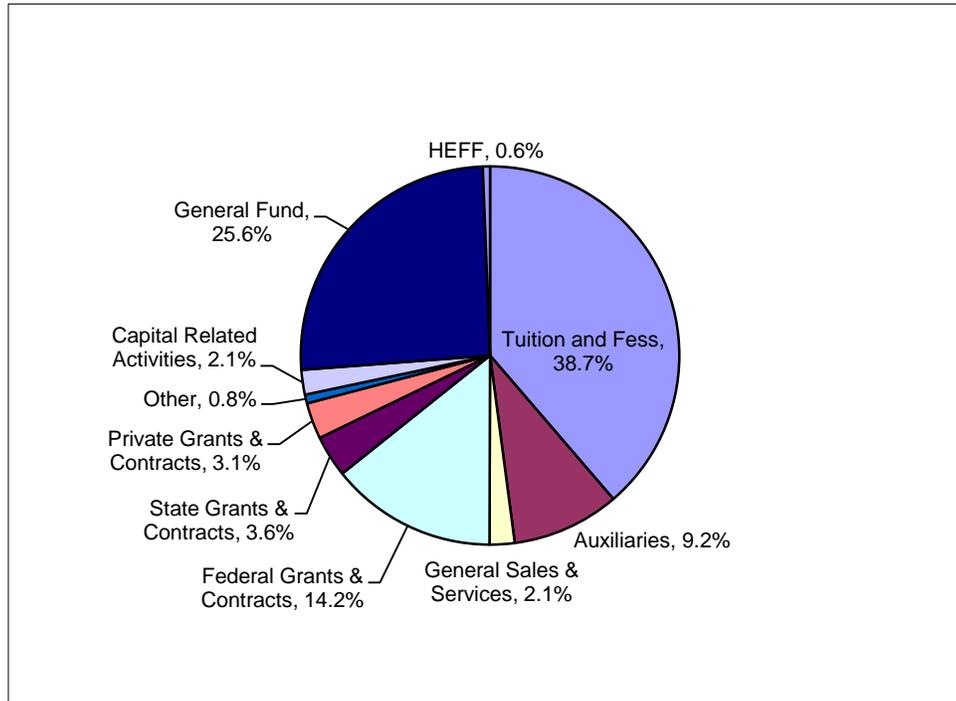
	<u>FY 2015</u>	<u>FY 2014</u>
Operating Revenues	\$ 26,116,498	\$ 26,133,985
Operating Expenses	<u>\$ 36,618,081</u>	<u>\$ 37,452,657</u>
Operating Loss	<u>\$ (10,501,583)</u>	<u>\$ (11,318,672)</u>
Non-Operating Revenues	\$ 9,875,108	\$ 9,814,901
Non-Operating Expenses	<u>\$ 548,312</u>	<u>\$ 535,518</u>
Non-Operating Income	<u>\$ 9,326,796</u>	<u>\$ 9,279,383</u>
Net Loss/Income	\$ (1,174,786)	\$ (2,039,290)
Capital Contributions	<u>\$ 777,813</u>	<u>\$ 582,511</u>
Increase (Decrease) in Net Assets	<u>\$ (396,973)</u>	<u>\$ (1,456,779)</u>
Net Position, Beginning of Year	\$ 19,298,502	\$ 20,755,281
Prior period adjustment	<u>\$ -</u>	<u>\$ -</u>
Net Position, End of Year	<u>\$ 18,901,529</u>	<u>\$ 19,298,502</u>

Operating revenues decreased \$17,000, -.07% in FY15. Operating revenues are those revenues the university earns through its operation, such as tuition, fees, auxiliary services, and grants and contracts. Tuition and fees increased by \$668,000, general sales and services increased by \$250,000 and grants and contracts decreased by \$960,000.

Non-operating revenues are revenues realized through appropriations or non-operating activities such as investment income. Non-operating revenues increased by \$60,000. This was due to increases in General funds of 186,000 that were offset by decreases in HEFF funds of \$136,000.

Operating expenses decreased by \$834,000. The majority of the decreases were in contractual services and supplies and materials. Some of the grant funding for the Center for Health Information and Technology ended which decreased contractual services. Also, in the previous year, there were a number of technology expenditures for upgrades in the supplies and materials category that we did not have in FY15.

The following is an illustration of revenues by source for the year ended June 30, 2015:

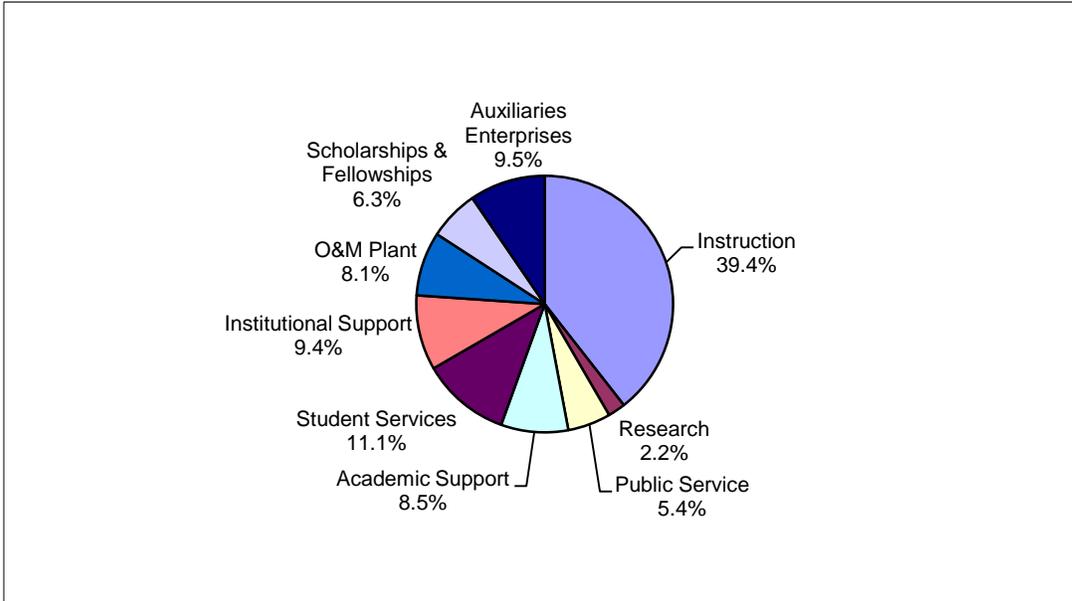


Below is a review of the expenses by the National Association of College and University Business Officers expenditure categories.

**NACUBO Expenditure**

	<u>FY15</u>	<u>FY14</u>
Instruction	\$ 14,438,454	\$ 14,015,259
Research	\$ 807,791	\$ 1,144,957
Public Service	\$ 1,980,247	\$ 2,897,021
Academic Support	\$ 3,098,240	\$ 3,416,058
Student Services	\$ 4,080,950	\$ 4,043,443
Institutional Support	\$ 3,457,658	\$ 3,084,915
O&M Plant	\$ 2,957,267	\$ 3,731,021
Scholarships & Fellowships	\$ 2,305,577	\$ 1,711,270
Auxiliaries Enterprises	\$ 3,491,897	\$ 3,408,713
<b>Total</b>	<u>\$ 36,618,081</u>	<u>\$ 37,452,657</u>

The following is an illustration of expenses for the year ended June 30, 2015:

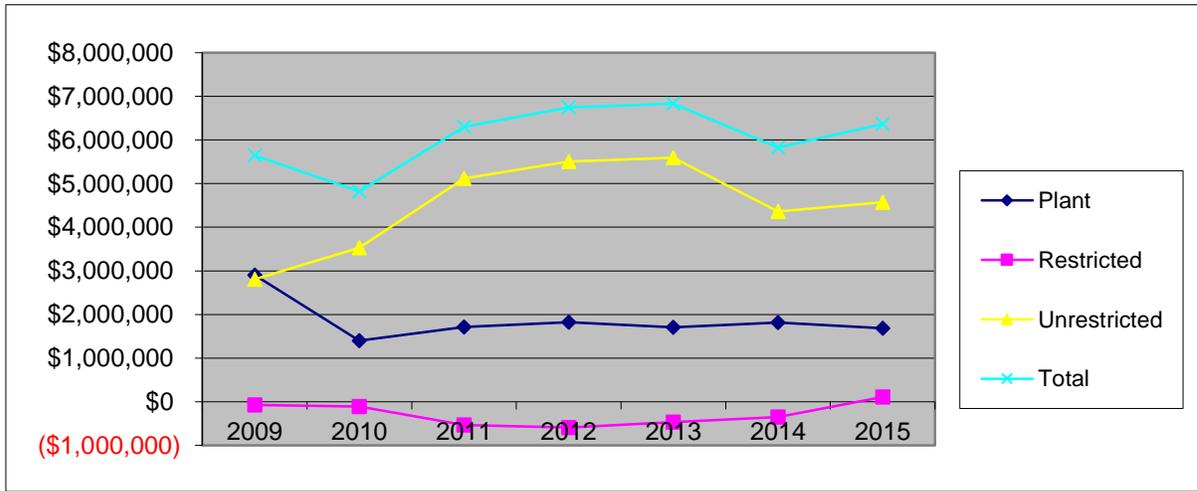


**Condensed Statement of Cash Flows  
For the year ended June 30, 2015**

	<b>FY2015</b>	<b>FY2014</b>
Cash Provided by (Used in):		
Operating Activities	\$ (7,998,382)	\$ (9,559,262)
Non Capital Financing Activities	\$ 9,819,926	\$ 9,621,383
Capital and Related Financing Activities	\$ (1,323,898)	\$ (1,142,571)
Investing Activities	\$ 53,971	\$ 70,442
Net Increase (Decrease) in Cash	\$ 551,618	\$ (1,010,008)
Cash and Cash Equivalents, Beginning of the Year	\$ 5,824,651	\$ 6,834,659
Cash and Cash Equivalents, End of the Year	<u>\$ 6,376,269</u>	<u>\$ 5,824,651</u>

The Statement of Cash Flows presents information related to cash inflows summarized by operating, non-capital financing, capital financing and related investing activities. This helps measure the ability to meet financial obligations as they mature. Major sources of cash include: 1) funds from students for tuition, fees, auxiliaries, and federal grants, \$25.6 million, in the operating activities category, and 2) general appropriations, \$9.4 million, in the non capital financing activities. The largest payments were for salaries and benefits, \$22.2 million, and payments to vendors for contracted services and supplies, \$9.2 million.

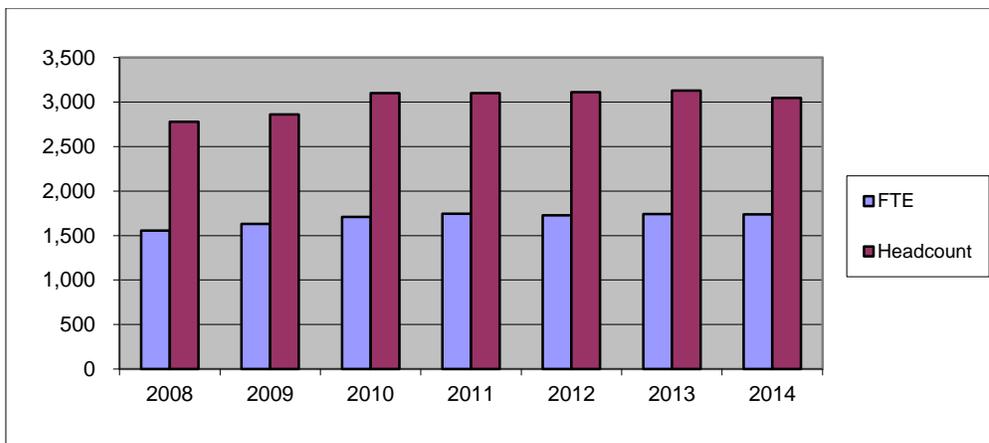
The following is an illustration of cash balances as of June 30, 2015:



Unrestricted cash on hand as of June 30 each year is used for summer salaries, benefits and monthly operating expenses. Cash receipts during the summer are relatively low so the university must maintain a sufficient cash balance to meet obligations until proceeds from tuition and fees are received in the fall. Restricted cash can only be used in accordance with the source of the cash and grant funds are typically received on a reimbursement basis. Plant funds are to be used for long-term maintenance of revenue buildings and not for normal day-to-day operating expenses.

### Enrollment Information

Dakota State University's Fall headcount and full-time equivalent enrollment decreased slightly by 2.6% and .06% respectively over the prior year.



**DAKOTA STATE UNIVERSITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	FY 2015	FY 2014
<b>ASSETS</b>		
Current Assets		
Cash on Deposit - State Treasurer	6,088,137.92	5,278,472.27
Other Cash and Temporary Investments	49,973.03	55,910.21
Accounts Receivable - Students	412,157.36	418,897.20
Accounts Receivable	128,957.54	136,028.81
Notes Receivable	385,329.65	352,635.20
Interest Receivable	55,180.39	53,969.42
Prepaid Expenses and Deferred Charges	43,743.32	186,551.74
Inventory	271,101.84	341,118.50
Due From Federal Sources	501,812.07	447,700.14
Due From Primary Government	137,515.98	119,807.54
Unamortized Cost of Issuance	0.00	1,673.88
<b>Total Current Assets</b>	<b>8,073,909.10</b>	<b>7,392,764.91</b>
Non-Current Assets		
Restricted Cash on Deposit - State Treasurer (Debt Service)	238,157.60	490,268.54
Notes Receivable	1,327,189.00	1,425,626.00
Land	89,820.00	89,820.00
Land Improvements, Net	326,890.10	356,454.45
Infrastructure, Net	2,380,504.43	2,514,764.77
Buildings and Building Improvements, Net	17,979,144.41	18,407,824.96
Equipment and Other Property, Net	1,431,664.64	1,484,362.82
Construction in Progress	188,438.21	238,216.51
Unamortized Cost of Bond Issuance	0.00	16,320.10
<b>Total Non-Current Assets</b>	<b>23,961,808.39</b>	<b>25,023,658.15</b>
Deferred Outflows	0.00	32,021.68
<b>TOTAL ASSETS</b>	<b>32,035,717.49</b>	<b>32,448,444.74</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	1,151,922.75	1,127,425.24
Accrued Wages and Benefits	539,050.68	426,993.55
Accrued Interest Payable	56,424.25	26,408.13
Compensated Absences Payable	755,562.58	705,832.31
Bonds Payable, Net of Unamortized Amount	366,431.11	376,348.24
Obligations Under Capital Leases, Non Capital	357,817.62	359,744.27
Deferred Revenue	490,802.32	144,374.71
Due to Primary Government	33,238.67	53,129.06
Due to Other Component Unit	0.00	8,560.19
Student Deposits	59,538.04	60,269.96
Agency Funds - Funds Held for Others	175,389.55	130,266.48
<b>Total Current Liabilities</b>	<b>3,986,177.57</b>	<b>3,419,352.14</b>
Non-Current Liabilities		
Compensated Absences Payable	1,581,742.20	1,467,337.02
Bonds Payable, Net of Unamortized Amount	5,197,712.15	5,821,895.76
Obligations Under Capital Leases, Non Capital	141,469.25	222,601.40
Federal Capital Contributions Advance	2,218,756.00	2,218,756.00
<b>Total Non-Current Liabilities</b>	<b>9,139,679.60</b>	<b>9,730,590.18</b>
<b>TOTAL LIABILITIES</b>	<b>13,125,857.17</b>	<b>13,149,942.32</b>
Deferred Inflows	8,331.03	0.00
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>13,134,188.20</b>	<b>13,149,942.32</b>
<b>NET POSITION</b>		
Invested in Capital, Net of Related Debt	16,832,318.53	16,893,199.51
Restricted		
Nonexpendable		
Expendable		
Debt service	238,157.60	490,268.54
Other	262,511.00	346,100.00
Unrestricted	1,568,542.16	1,568,934.37
<b>TOTAL NET POSITION</b>	<b>18,901,529.29</b>	<b>19,298,502.42</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>32,035,717.49</b>	<b>32,448,444.74</b>

**DAKOTA STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,364,040	\$ 1,455,097
Receivables:		
Interest and dividends	225	225
Investments		
Money market funds	733,985	267,766
Cash surrender value of life insurance	103,692	100,362
Securities	12,613,996	10,944,316
Beneficial interest in perpetual trust	331,495	363,509
Land	179,230	179,230
Property and equipment, net	978,518	1,021,618
Loan origination fees, net	763	2,290
	<u>\$18,305,944</u>	<u>\$ 14,334,413</u>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Gift annuity agreements	51,699	58,188
Long-term loans	20,000	20,000
Assets held for others	1,364,276	1,414,001
	<u>1,435,975</u>	<u>1,492,189</u>
<b>TOTAL LIABILITIES</b>		
<b>COMMITMENT AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	1,599,197	1,148,268
Temporarily restricted	5,643,971	3,091,592
Permanently restricted	9,626,801	8,602,364
	<u>16,869,969</u>	<u>12,842,224</u>
<b>TOTAL NET ASSETS</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$18,305,944</u>	<u>\$ 14,334,413</u>

**DAKOTA STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**JUNE 30, 2015**

	FY 2015	FY 2014
<b>OPERATING REVENUES</b>		
Tuition & Fees		
State Support	3,719,867.76	3,590,106.21
Self Support	7,475,052.07	6,710,200.25
HEFF & undistributed tuition	718,997.41	695,625.74
Total Tuition	11,913,917.24	10,995,932.20
Fees	4,966,039.65	4,955,672.49
Total Tuition and Fees	16,879,956.89	15,951,604.69
Student Financial Assistance	(2,647,481.00)	(2,387,309.74)
Tuition and Fees Net of Student Financial Assistance	14,232,475.89	13,564,294.95
Auxiliaries	3,385,113.82	3,371,292.39
General Sales & Services	783,870.48	533,520.81
Contracts & Grants - Federal	5,228,869.09	6,036,650.74
Contracts & Grants - State	1,310,385.45	1,278,456.07
Contracts & Grants - Private	1,137,094.72	1,322,237.13
Student Loan Interest	24,384.11	26,616.78
Other Revenues and Additions	14,304.56	916.14
<b>TOTAL OPERATING REVENUES</b>	<b>26,116,498.12</b>	<b>26,133,985.01</b>
<b>OPERATING EXPENSES</b>		
Personal Services	22,531,286.98	22,693,042.46
Travel	703,332.80	672,984.31
Contractual	6,359,959.96	6,853,009.62
Supplies and Materials	3,070,739.99	3,542,325.35
Grants	2,143,660.64	1,948,668.97
Loan Cancellation Expense	55,321.03	67,210.35
Badt Debt	0.00	5,509.98
Depreciation	1,753,779.27	1,670,334.90
<b>TOTAL OPERATING EXPENSES</b>	<b>36,618,080.67</b>	<b>37,453,085.94</b>
<b>TOTAL OPERATING INCOME/(LOSS)</b>	<b>(10,501,582.55)</b>	<b>(11,319,100.93)</b>
<b>NON-OPERATING REVENUES</b>		
General Fund Appropriations	9,412,008.45	9,225,513.71
School & Public Lands	182,134.64	173,360.00
HEFF	225,783.02	362,055.81
Investment Income	55,182.37	53,971.21
<b>TOTAL NON-OPERATING REVENUES</b>	<b>9,875,108.48</b>	<b>9,814,900.73</b>
<b>NON-OPERATING EXPENSES</b>		
Interest Expense on Bonds	282,388.65	271,731.90
Other (community center payment to BOR)	123,728.56	123,577.48
Loss on disposal of assets	0.00	662.49
Contributed Services	142,194.91	139,546.08
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>548,312.12</b>	<b>535,517.95</b>
<b>TOTAL NON-OPERATING REVENUES/(EXPENSES)</b>	<b>9,326,796.36</b>	<b>9,279,382.78</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>(1,174,786.19)</b>	<b>(2,039,718.15)</b>
<b>CAPITAL</b>		
HEFF	589,374.85	497,073.19
South Dakota Building Authority	188,438.21	85,866.28
<b>NET POSITION:</b>		
NET POSITION - BEGINNING OF THE YEAR	19,298,502.42	20,755,281.10
NET POSITION - END OF THE YEAR	18,901,529.29	19,298,502.42

**DAKOTA STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			Total
	Unrestricted	Restricted		
		Temporarily	Permanent	
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions	\$ 608,065	\$3,416,884	\$1,056,727	\$ 5,081,676
Investment income	72,792	630,462	-	703,254
Realized gain (loss) on investments	-	(90,391)	-	(90,391)
Increase (decrease) in fair value of investments	149,705	(456,687)	-	(306,982)
Change in split interest agreements	-	-	(32,290)	(32,290)
Net assets released from satisfaction of donor and program restrictions	947,889	(947,889)	-	-
Other sources	216,260	-	-	216,260
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<b>1,994,711</b>	<b>2,552,379</b>	<b>1,024,437</b>	<b>5,571,527</b>
<b>DISTRIBUTIONS AND EXPENSES</b>				
Gifts, grants and scholarships	760,766	-	-	760,766
Investment fees	44,036	-	-	44,036
Management, general and development	694,354	-	-	694,354
Depreciation and amortization	44,626	-	-	44,626
<b>TOTAL DISTRIBUTIONS AND EXPENSES</b>	<b>1,543,782</b>	<b>-</b>	<b>-</b>	<b>1,543,782</b>
<b>CHANGE IN NET ASSETS</b>	<b>450,929</b>	<b>2,552,379</b>	<b>1,024,437</b>	<b>4,027,745</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>1,148,268</b>	<b>3,091,592</b>	<b>8,602,364</b>	<b>12,842,224</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 1,599,197</b>	<b>\$5,643,971</b>	<b>\$9,626,801</b>	<b>\$16,869,969</b>

**DAKOTA STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS, Continued**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

2014			
Unrestricted	Restricted		Total
	Temporarily	Permanent	
\$ 574,824	\$ 2,545,114	\$ 522,180	\$ 3,642,118
16,430	419,518	-	435,948
-	(47,200)	-	(47,200)
948,443	(110,748)	-	837,695
-	-	18,211	18,211
871,198	(871,198)	-	-
191,937	-	-	191,937
<u>2,602,832</u>	<u>1,935,486</u>	<u>540,391</u>	<u>5,078,709</u>
710,608	-	-	710,608
39,527	-	-	39,527
645,852	-	-	645,852
51,968	-	-	51,968
<u>1,447,955</u>	<u>-</u>	<u>-</u>	<u>1,447,955</u>
1,154,877	1,935,486	540,391	3,630,754
(6,609)	1,156,106	8,061,973	9,211,470
<u>\$ 1,148,268</u>	<u>\$ 3,091,592</u>	<u>\$ 8,602,364</u>	<u>\$ 12,842,224</u>

**DAKOTA STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	FY 2015	FY 2014
Tuition, Fees, & Auxiliaries (Net of Scholarship allowance & discounts)	17,617,589.71	16,935,587.34
General Sales & Services	932,876.70	748,865.59
Federal Grants & Contracts	5,521,184.77	6,111,918.83
State Grants and Contracts	1,292,677.01	1,324,109.79
Private Grants & Contracts	1,054,290.76	1,322,237.13
Other	14,304.56	916.14
Student Loan Interest	24,384.11	26,616.78
Personal Services (salaries & benefits)	(22,394,502.83)	(22,523,446.38)
Travel	(703,332.80)	(672,984.31)
Contractual	(6,396,430.84)	(6,841,094.57)
Supplies & Materials	(2,828,183.58)	(3,949,253.80)
Grants	(2,143,660.64)	(1,948,668.97)
Perkins Loans Collected from Students	10,421.52	(94,065.56)
Net cash provided (used) by Operating Activities	<u>(7,998,381.55)</u>	<u>(9,559,261.99)</u>
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
General Fund Appropriations	9,412,008.45	9,225,513.71
School & Public Lands	182,134.64	173,360.00
HEFF	225,783.02	362,055.81
Direct Loan Receipts	10,740,371.00	10,837,568.00
Direct Loan Disbursements	(10,740,371.00)	(10,837,568.00)
Payments for Other Expenditures	0.00	(139,546.08)
Net Cash Flows Provided by Noncapital Financing Activities	<u>9,819,926.11</u>	<u>9,621,383.44</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES		
HEFF	589,374.85	497,073.19
Community Center Payments to Board of Regents	(123,728.56)	(123,577.48)
Principal Paid on Indebtedness	(883,058.80)	(206,990.05)
Interest on Indebtedness	(36,126.58)	(274,877.50)
Purchase of Capital Assets	(1,058,797.55)	(1,120,065.42)
South Dakota Building Authority	188,438.21	85,866.29
Net Cash Used by Capital and Related Financing Activities	<u>(1,323,898.43)</u>	<u>(1,142,570.97)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
	<u>53,971.40</u>	<u>70,441.97</u>
Net cash Provided (used)	<u>551,617.53</u>	<u>(1,010,007.55)</u>
Cash - Beginning of the year	5,824,651.03	6,834,658.58
Cash - End of the year	<u>6,376,268.56</u>	<u>5,824,651.03</u>
<b>RECONCILIATION OF NET OPERATING REVENUES/(EXPENSES) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES</b>		
OPERATING INCOME (LOSS)	(10,643,777.46)	(11,319,100.93)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation, Bad Debt, and Loan Cancellation Expense	1,809,100.30	1,743,055.23
Change in Assets and Liabilities:		
Accounts Receivable	103,220.68	205,277.73
Inventory	70,016.66	(98,236.84)
Accounts Payable	663,058.27	(90,257.18)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>(7,998,381.55)</u>	<u>(9,559,261.99)</u>

**DAKOTA STATE UNIVERSITY FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,027,745	\$ 3,630,754
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	44,626	51,968
Permanently restricted gifts	(1,056,727)	(522,180)
Net decrease (increase) in fair value of investments	306,982	(837,695)
Realized (gain) on investments	90,391	(47,200)
Changes in assets and liabilities:		
Receivables	261	261
Beneficial interest in perpetual trust	32,290	(22,953)
Increase in life insurance contracts	-	(21,465)
Increase in due to DSU	-	(750)
Gift annuity agreements	6,489	(2,807)
Net cash provided by (used in) operating activities	<u>3,452,057</u>	<u>2,227,933</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	-
Proceeds from sale and maturities of investment securities	653,776	966,599
Purchase of investment securities	(3,253,617)	(1,774,068)
Net cash provided by (used in) investing activities	<u>(2,599,841)</u>	<u>(807,469)</u>
<b>FINANCING ACTIVITIES</b>		
Borrowings on note payable	-	-
Principal payments on long-term debt	-	(558,271)
Permanently restricted gifts	1,056,727	522,180
Net cash provided by (used in) financing activities	<u>1,056,727</u>	<u>(36,091)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,908,943</b>	<b>1,384,373</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>1,455,097</u></b>	<b><u>70,724</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 3,364,040</u></b>	<b><u>\$ 1,455,097</u></b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING ACTIVITIES</b>		
Operating expenses paid by DSU on behalf of Foundation included in unrestricted revenue and other support	<u>\$ 339,640</u>	<u>\$ 408,311</u>
Interest	<u>\$ -</u>	<u>\$ 18,073</u>

**DAKOTA STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation:**

The financial statements have been prepared and are presented as required by GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion & Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required. Based on the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Dakota State University Foundation is reported as a component unit of the university and the Foundation Statements have been presented following the statements of the University.

**B. Reporting Entity:**

Dakota State University is one of six public institutions of higher education governed by the South Dakota Board of Regents. The University is a component unit of the State of South Dakota and is included in the general-purpose financial statements of the State of South Dakota.

**C. Basis of Accounting:**

The University has adopted the accrual basis of accounting for preparing its annual financial statements as required by generally accepted accounting principles. Under the accrual basis of accounting, revenue is recognized when earned and expenditures when an obligation is incurred. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities.

**D. Fund Accounting:**

In order to insure observance of the limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained according to the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into fund accounts that are maintained in accordance with activities or objectives specified by donors, governmental appropriations, granting agencies, and other outside sources or regulations.

Separate accounts are maintained for each fund; however, in the accompanying statements, all funds have been combined for reporting purposes.

**E. Accounts Receivable:**

Accounts Receivable consists of funds owed to various University departments from external sources. Accounts receivable include funds owed from students for tuition & fee charges as well as expenditures made on grants for which reimbursement has not been received. The University used the direct write-off method for uncollectible receivables.

**F. Notes Receivable:**

Notes receivable consist of those receivables in connection with the Perkins Loan program.

**G. Investments:**

Investments are reported at cost. Market values are not readily determinable for funds on deposit with the State Treasurer. These funds are pooled by the State Investment Council for investment purposes and investment earnings are returned to participating funds annually.

**H. Inventories:**

Inventories of supplies are reported using the FIFO method or estimated value. Inventories are reflected as current assets on the statement of net assets.

**I. Capital Assets:**

Capital assets are reported at historical cost. The cost of a capital asset includes capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have an initial useful lives extending beyond a single reporting period. Capital assets are depreciated using the straight line method of depreciation over their estimated useful lives and are reported net of accumulated depreciation in the statement of net assets.

**J. Net Position:**

Net position is classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Invested in capital assets net of related debt represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the assets.

**K. Scholarship allowances and student aid:**

Tuition and fee revenues are reported net of any scholarship discounts and allowances on the Statement of Revenues, Expenses, and Changes in Net Assets.

**L. Revenue recognition:**

The University uses accrual basis accounting & therefore recognizes revenues when earned.

**M. Operating and non-operating revenues:**

Operating revenues consist of transactions resulting in the sales of product or service, grants or contracts related to exchange transactions, program loans, reimbursement of operating transactions, and indirect cost recovered on grants and contracts related to exchange transactions. Non-operating activities are generally activities considered non-capital financing, capital and related financing and investing activities for purposes of the Statement of Cash Flows. General fund appropriations are reported as non-operating revenues.

## **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 fair value. Cash equivalents include short-term investments with original maturities of three months or less.

## **3. Retirement Plan**

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system (PERS) established to provide retirement benefits for employees of the state and local governments. 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.

Covered 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 contributions.

## **4. State Appropriations**

The State General Fund appropriation for fiscal year 2015 was \$9,412,008.

## **5. Tuition and Fees**

The University collects and remits tuition and selected fees to the Board of Regents Tuition and Fee pool. Only the amount returned to the University as a tuition allocation from the fund is reported as revenue.

## **6. Endowment 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.

## **7. Related parties:**

The financial statements do not include the assets, liabilities or fund balances of affiliated organizations, whose financial statements are separately audited.

## **8. Funds held for others:**

Funds held for others consist of federal loan program balances and funds held for student organizations. Assets of the federal loan program are student loans receivable and the funds held for student organizations are principally cash.

**9. Capital Asset Activity including construction in progress for the year ended June 30, 2015 was as follows:**

	Beginning Balance	Additions	Retirements	Ending Balance
Land	89,820			89,820
Land Improvements	1,054,404			1,054,404
Infrastructure	3,290,316			3,290,316
Buildings	36,798,592	827,591		37,626,183
Furniture, fixtures, and equip.	2,978,470	197,832		3,176,302
Library materials	3,380,806	83,152	(30,743)	3,433,215
<b>Total</b>	<b>47,592,407</b>	<b>1,108,576</b>	<b>(30,743)</b>	<b>48,670,240</b>
Construction in Progress	238,217	(49,778)		188,438
<b>Less accumulated depreciation:</b>				
Land Improvements	697,949	29,564		727,513
Infrastructure	775,551	134,260		909,811
Buildings	18,390,767	1,256,272		19,647,039
Furniture, fixtures, and equip.	1,952,192	226,809		2,179,002
Library materials	2,922,721	106,873	(30,743)	2,998,851
<b>Total</b>	<b>24,739,180</b>	<b>1,753,779</b>	<b>(30,743)</b>	<b>26,462,216</b>
<b>Capital Assets, net</b>	<b>23,091,444</b>	<b>(694,982)</b>	<b>0</b>	<b>22,396,462</b>

**10. Long-term liability activity for the year ended June 30, 2015 was as follows:**

Compensated Absences Payable:

Compensated absences include accrued annual leave, sick leave and compensatory time earned as of June 30, 2015. Annual leave is earned by State of South Dakota employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balance. 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 employee's annual compensation.

Capital Lease Payable:

DSU entered into a capital lease to purchase tablet PCs. These tablets are individually under the capitalization threshold but because of the \$1 buyout option at the end of the lease, they are to be considered capital leases rather than operating leases.

The schedule of capital leases remaining to be paid as of June 30, 2015 are as follows:

	<u>Tablet PC</u>
<b>Balance 6/30/14</b>	582,345.67
Additions	405,925.00
Payments	<u>(488,983.81)</u>
<b>Balance 6/30/15</b>	<u>499,286.86</u>
Due FY16 principal	357,817.61
Due FY17 principal	<u>141,469.25</u>
Total Principal	<u>499,286.86</u>
Due FY16 interest	13,054.32
Due FY17 interest	<u>3,494.71</u>
Total Interest	<u>16,549.03</u>

Long-Term Liabilities:

The South Dakota Board of Regents issued bonds in 2007 and 2008. DSU's portion was \$390,000 for the 2007 series and \$4,770,000 for the 2008 series. Both of the issues were for the housing system and mature in 2028.

In September 2014, the South Dakota Board of Regents issued series 2014B totaling \$13,760,000 of which DSU's portion was \$1,695,000. This issue was a refinancing of the previously held 2004A series. The total principal savings was \$425,000 and will be realized in the annual payments with April 2025 as the maturity date.

The series 2007, 2008 and 2014B bonds are funded from pledged revenues of the residence halls less operational costs, pledged revenues from auxiliary operations including the Bookstore, Food Service, and Trojan Center less operational costs and a portion of the General Activity Fee

The annual requirements to amortize all Revenue Bond debt outstanding are as follows:

	<u>TOTAL</u>		
<b>Year Ending June 30,</b>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2016	350,000.00	217,161.00	567,161.00
2017	365,000.00	204,681.00	569,681.00
2018	390,000.00	190,266.00	580,266.00
2019	400,000.00	174,966.00	574,966.00
2020	410,000.00	159,278.00	569,278.00
2021-2025	2,350,000.00	516,012.00	2,866,012.00
2026-2029	1,065,000.00	83,614.00	1,148,614.00
<b>Total</b>	<u>5,330,000.00</u>	<u>1,545,978.00</u>	<u>6,875,978.00</u>

## 11. Operating Leases:

The University has entered into the following leases:

Parking lot lease agreement with the DSU Foundation which requires the University to pay the Foundation \$25,000 annually effective July 2015 to June 2016.

Student housing in the amount of \$103,680 annually. This agreement is with the Madison Housing & Redevelopment Commission and is for a period of two years, expiring in 2016.

The University leases two buses from two different companies for athletic team travel.

The schedule of operating leases remaining to be paid as of June 30, 2015 are as follows:

Year	Housing Lease	Parking Lot Lease	Bus Leases	Total
2016	103,680.00	25,000.00	29,645.00	158,325.00
2017	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
<b>Total</b>	<b>103,680.00</b>	<b>25,000.00</b>	<b>29,645.00</b>	<b>158,325.00</b>
<b>Balance 6/30/14</b>	207,360.00	21,500.00	59,290.00	288,150.00
Additions	0.00	25,000.00	0.00	25,000.00
Reductions	(103,680.00)	(21,500.00)	(29,645.00)	(154,825.00)
<b>Balance 6/30/15</b>	<b>103,680.00</b>	<b>25,000.00</b>	<b>29,645.00</b>	<b>158,325.00</b>

## 12. Joint Ventures:

Dakota State University and the City of Madison are in joint venture of the Madison Community Center. The operations of the Madison Community Center are funded through memberships. Bonds are paid by Dakota State University from a portion of the general activity fee.

## 13. Functional Classification of Expenses and Depreciation:

	Personal Services	Travel	Contractual	Supplies & non-capitalized equipment	Grants & Subsidies	Other	Depr.	Total
Instruction	\$ 11,652,946	\$ 132,843	\$ 1,479,891	\$ 1,170,157	\$ 2,618	\$ -	\$ -	\$ 14,438,454
Research	\$ 387,164	\$ 97,742	\$ 71,903	\$ 122,907	\$ 128,075	\$ -	\$ -	\$ 807,791
Public Service	\$ 1,422,948	\$ 47,875	\$ 348,391	\$ 159,622	\$ 1,410	\$ -	\$ -	\$ 1,980,247
Academic Support	\$ 1,988,211	\$ 81,928	\$ 577,322	\$ 450,779	\$ -	\$ -	\$ -	\$ 3,098,240
Student Services	\$ 2,631,561	\$ 258,311	\$ 813,715	\$ 336,523	\$ 40,840	\$ -	\$ -	\$ 4,080,950
Institutional Support	\$ 2,481,897	\$ 56,229	\$ 875,454	\$ 44,077	\$ -	\$ -	\$ -	\$ 3,457,658
O & M of Plant	\$ 1,041,056	\$ 546	\$ (5,278)	\$ 167,163	\$ -	\$ -	\$ 1,753,779	\$ 2,957,267
Scholarships & Fellow ships	\$ 204,722	\$ 18,645	\$ 6,347	\$ 49,825	\$ 1,970,718	\$ 55,321	\$ -	\$ 2,305,577
Auxiliary Enterprise	\$ 720,782	\$ 9,214	\$ 2,192,214	\$ 569,687	\$ -	\$ -	\$ -	\$ 3,491,897
<b>TOTAL</b>	<b>\$ 22,531,287</b>	<b>\$ 703,333</b>	<b>\$ 6,359,960</b>	<b>\$ 3,070,740</b>	<b>\$ 2,143,661</b>	<b>\$ 55,321</b>	<b>\$ 1,753,779</b>	<b>\$ 36,618,081</b>

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES**

The Dakota State University Foundation is an independent non-profit corporation established for the purpose of obtaining contributions and management of related investments for the benefit of Dakota State University (DSU).

**SIGNIFICANT ACCOUNTING POLICIES**

*Method of accounting*

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

*Cash and cash equivalents*

For purposes of reporting cash flows, cash and cash equivalents include deposits with an original maturity of three months or less.

*Investments*

Investments in debt and equity securities are carried at fair market value. Fair market value is determined by reference to quoted market prices. Increases and decreases in fair market value are reflected in revenues and other support in the year in which they occur.

Certain funds have been pooled for ease of management and to achieve greater diversification in investments. Earnings on the investments are allocated to individual endowment accounts.

*Property and equipment*

Property and equipment received as support are stated at fair market value at the time of the gift or at cost if purchased. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

*Advertising and promotion costs*

Advertising and promotion costs are charged to expense as incurred.

*Concentration of credit risk*

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents held in bank, trust, or brokerage accounts. Management believes it places its cash and cash equivalents with high quality credit institutions. At times these accounts may be in excess of the FDIC insurance limit.

*Income taxes*

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. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Foundation would be recorded as operating expenses. The accompanying financial statements do not reflect a provision for income taxes or any interest or penalties, and the Foundation has no other tax positions which must be considered for disclosure.

## NOTES TO FINANCIAL STATEMENTS

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### *Use of estimates*

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

### *Donated services and facilities*

DSU provides staff and offices to perform certain administrative and development functions at no cost to the Foundation. Also, many individuals contribute time to the activities of the Foundation without compensation.

During the years ended June 30, 2015 and 2014, the value of contributed services and facilities meeting the requirements for recognition in the financial statements was not material and has not been recorded.

### *Contributions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of donor restrictions.

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

### *Donated Assets*

Donated property, marketable securities, and other noncash donations are recorded as contributions at their estimated market value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets when the restriction has been fulfilled.

### *Pledges Receivable*

Pledges receivable are recognized as assets and support when the donors' unconditional promises to give are received. Conditional pledges are recognized when the conditions on which they depend are substantially met.

### *Fair Value Measurements*

The Foundation has determined the fair value of certain assets and liabilities in accordance with the provisions of FASB ASC 820, *Fair Value Measurements*, (ASC 820) which provides a framework for measuring fair value under generally accepted accounting principles.

## NOTES TO FINANCIAL STATEMENTS

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### NOTE 2 - INVESTMENTS

The Foundation's investments are stated at fair market value and consist of the following:

	2014		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Other investments	\$ 247,200	\$ 2,781	\$ 249,981
Corporate stocks	5,533,599	1,962,524	7,496,123
Corporate and federal bonds	4,936,350	(68,458)	4,867,892
	<u>\$ 10,717,149</u>	<u>\$ 1,896,847</u>	<u>\$ 12,613,996</u>
	2013		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Other investments	\$ 247,200	\$ (36,368)	\$ 210,832
Corporate stocks	4,448,877	2,184,635	\$ 6,633,512
Corporate and federal bonds	4,044,002	55,970	\$ 4,099,972
	<u>\$ 8,740,079</u>	<u>\$ 2,204,237</u>	<u>\$ 10,944,316</u>

The Foundation has investments in two separate limited liability companies of \$153,985 and \$113,635 at June 30, 2015 and 2014, respectively. The investments are recorded at the original investment, plus or minus the Foundation's share of gains or losses to date less any distributions received in cash.

Investments include funds accepted for deposit from other organizations. These organizations' aggregate share of the asset-managed funds of \$1,364,276 and \$1,414,001 as of June 30, 2015 and 2014, respectively, is recorded as a liability in the accompanying statements of financial position.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2015 and 2014, consists of the following:

	Estimated Useful Life	2015	2014
Land improvements	15 Years	\$ 82,512	\$ 82,512
Sign	20 Years	399,324	399,324
Furniture and Fixtures	7 Years	30,934	30,934
Building	40 Years	922,919	922,919
Accumulated depreciation		<u>(457,171)</u>	<u>(414,071)</u>
		<u>\$ 978,518</u>	<u>\$ 1,021,618</u>

**NOTE 4 - LOAN FEES**

Costs incurred in connection with obtaining bank financing are capitalized, and amortized on a straight-line basis over the life of the respective bank loan arrangement. These capitalized fees at June 30, 2014 consisted of the following:

Loan Fees	\$ 14,815
Less: Accumulated Amortization	<u>(14,052)</u>
	<u>\$ 763</u>

Future amortization of capitalized loan expenses is as follows:

Year Ending June 30,	Amount
2016	<u>763</u>
2017	-
2018	-
2019	-
Thereafter	-
	<u>\$ 763</u>

**NOTE 5 - BENEFICIAL INTEREST IN PERPETUAL TRUST**

A donor has established a charitable perpetual trust at a local bank naming the Foundation as the trust beneficiary. Charitable perpetual trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms. At the end of the trusts' terms, the beneficiary will be reevaluated and the agreement with the Foundation could possibly be changed. The Foundation views this possibility as remote and has accordingly recognized the value of investments held by the perpetual trust as a permanently restricted asset in the accompanying statements of financial position. Assets held in charitable perpetual trust as of June 30, 2015 and 2014 were \$331,495 and \$363,509, respectively, and are reported at fair market value in the Foundation's statement of financial position. Changes in fair market value of charitable remainder trusts are reflected as changes in unrestricted net assets in the Foundation's statement of activities.

**NOTE 6 - GIFT ANNUITY AGREEMENTS**

The Foundation has entered into gift annuity agreements, which provide that the Foundation shall pay periodic amounts to designated beneficiaries until their death. Payments continue even if the assets gifted or acquired as a result of a gift have been exhausted. The Foundation records these gifts at market value with a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amounts of the gifts are recorded as unrestricted, temporarily restricted, or permanently restricted net assets based on the donors' wishes. Upon the death of a beneficiary, the remaining assets are held or disposed in accordance with the annuity agreements. Investments and cash held under gift annuity agreements total \$101,178 and \$102,158 as of June 30, 2015 and 2014, respectively. The estimated present value of future payments to be made under these agreements, discounted at rates from 2.0% to 4.0%, totaled \$51,699 and \$58,188 as of June 30, 2015 and 2014, respectively.

**NOTE 7 - LONG-TERM DEBT**

Long-term debt as of June 30, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
0% note payable to Nesta, due in yearly installments of \$10,000, through July, 2016	<u>20,000</u>	<u>20,000</u>
	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Annual maturities of long-term debt are as follows:

<u>YEAR ENDED</u> <u>JUNE 30,</u>	<u>AMOUNT</u>
2016	20,000
2017	-
2018	-
2019	-
2020	-
Thereafter	-
Total	<u>\$ 20,000</u>

The fair value of the Foundation's long-term debt as of June 30, 2015, approximates its carrying value.

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**SCHOLARSHIPS AND AWARDS**

The Foundation awards scholarships each spring for the following school year. These scholarships are subject to the satisfaction by intended recipients of prior conditions before payment. Accordingly, scholarships awarded in the spring of 2015 are not included as liabilities or expenses in the accompanying 2015 financial statements. The amount of scholarships to be awarded is approximately \$1,070,590 as of June 30, 2015.

**OPERATING LEASES**

The Foundation has entered into a parking lot lease agreement with DSU which requires DSU to pay the Foundation \$21,500 annually. This agreement is contingent upon the Legislature of South Dakota making appropriations for such expenditures on an annual basis.

The Foundation leases two houses on an annual basis. Rent income received from these leases was \$14,390 and \$14,367 for the years ended June 30, 2015 and 2014, respectively, and is included with other revenue sources in the Statement of Activities. The Foundation leases another house to DSU for use as President's residence. The lease is from January, 2009 to July, 2038 and requires DSU to pay \$27,820 annually.

The Foundation leases advertising space on a sign. Lease income received from this lease was \$152,550 and \$128,250 for the years ended June 30, 2015 and 2014, respectively.

**NOTE 9 - FAIR VALUE MEASUREMENT**

Assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and 2014 are as follows:

<b>June 30, 2015</b>	
Investment securities	\$ 12,364,015
Alternative investments	<u>249,981</u>
	<u>\$ 12,613,996</u>
<b>June 30, 2014</b>	
Investment securities	\$ 10,733,484
Alternative investments	<u>210,832</u>
	<u>\$ 10,944,316</u>

The related fair values of these assets and liabilities are determined as follows:

**NOTE 9 - FAIR VALUE MEASUREMENT, CONTINUED**

	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
<b>June 30, 2015</b>			
Investment securities	\$ 12,364,015	\$ -	\$ -
Alternative investments	-	-	249,981
	<u>\$ 12,364,015</u>	<u>\$ -</u>	<u>\$ 249,981</u>
<b>June 30, 2014</b>			
Investment securities	\$ 10,733,484	\$ -	\$ -
Alternative investments	-	-	210,832
	<u>\$ 10,733,484</u>	<u>\$ -</u>	<u>\$ 210,832</u>

Following is a reconciliation of activity for the year ended June 30, 2015 and 2014, for assets measured at fair value based upon significant unobservable (non-market) information:

	Alternative Investments
<b>June 30, 2015</b>	
Balance, beginning of year	\$ 210,832
Realized and unrealized gains (losses) including earnings	<u>39,149</u>
	<u>\$ 249,981</u>
<b>June 30, 2014</b>	
Balance, beginning of year	\$ 241,835
Realized and unrealized gains (losses) including earnings	<u>(31,003)</u>
	<u>\$ 210,832</u>

NOTES TO FINANCIAL STATEMENTS

**NOTE 10 - NET ASSETS**

	<u>2015</u>	<u>2014</u>
Unrestricted net assets	\$ 1,599,197	\$ 1,148,268
Temporarily restricted net assets	5,643,971	3,091,592
Permanently restricted net assets	<u>9,626,801</u>	<u>8,602,364</u>
Total net assets	<u>\$16,869,969</u>	<u>\$ 12,842,224</u>

Temporarily restricted net assets include all resources accumulated through donations for specific operating purposes. 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. Also included in this amount are accumulated unspent investment earnings from permanently restricted funds for which donors have specified a specific use.

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
DSU scholarships	(240,666)	145,315
DSU departmental expenses	(300,918)	(195,261)
DSU buildings and equipment	6,185,555	3,141,538
Total	<u>5,643,971</u>	<u>3,091,592</u>

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income which is expendable to support DSU for scholarships, departmental expenses and campus beautification.

Permanently restricted net assets are dedicated to support the following purposes:

	<u>2015</u>	<u>2014</u>
DSU scholarships	9,010,591	7,986,154
DSU departmental expenses	516,210	516,210
DSU buildings and equipment	100,000	100,000
Total	<u>9,626,801</u>	<u>8,602,364</u>

**NOTE 11 - ENDOWMENTS**

The Foundation's endowment consists of several individual funds established for a variety of purposes. Those funds are organized in five separate funds, accumulated under the Dakota State University Composite for management and record-keeping purposes, making up the endowment assets of the Foundation. The endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

The Board of Directors of the Foundation has interpreted the South Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a review based on a total return concept, balancing prudent spending for the purposes intended annually, while keeping in mind the need for the endowment to serve in perpetuity for the benefit of Dakota State University. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated 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:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and the University
7. The investment policies of the Foundation

The composition of Endowment Net Assets by fund type as of June 30, 2015 and 2014, is as follows:

	Unrestricted	Permanently Restricted	Total
<b>June 30, 2015</b>			
Donor-restricted endowment funds	\$ (357,842)	\$ 9,315,558	\$ 8,957,716
Board-designated endowment funds	(1,034)	150,000	148,966
	<u>\$ (358,876)</u>	<u>\$ 9,465,558</u>	<u>\$ 9,106,682</u>
<b>June 30, 2014</b>			
Donor-restricted endowment funds	\$ -	\$ 8,291,121	\$ 8,291,121
Board-designated endowment funds	(1,541)	150,000	148,459
	<u>\$ (1,541)</u>	<u>\$ 8,441,121</u>	<u>\$ 8,439,580</u>

NOTES TO FINANCIAL STATEMENTS

Changes in Endowment Net Assets for the year ending June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ (1,541)	\$ 8,441,121	\$ 8,439,580
Investment return:			
Net depreciation (realized and unrealized)	\$ (357,335)		\$ (357,335)
Change in split -interests	-	(32,290)	(32,290)
Contributions	-	1,056,727	1,056,727
	<u>\$ (358,876)</u>	<u>\$ 9,465,558</u>	<u>\$ 9,106,682</u>

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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$358,876 and \$1,200 as of June 30, 2015 and 2014. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

The Investment Committee of the Board of Trustees is charged with the responsibility of managing the investment of endowment assets for the Foundation. The overall goal in management of these funds is to generate a long-term total rate of return that provides sustainable distributions to support program expenditures within a reasonable level of risk. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, allow them to grow at a rate exceeding expected inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as, to provide additional real growth through new gifts and investment return.

The Investment Committee of the Board of Trustees adheres to modern portfolio theory, which has, as its basis, risk reduction through diversification. Diversification is obtained through the use of multiple asset classes, as well as, multiple investments within these asset classes. Assets classes that may be used include (but are not limited to) domestic and international corporate stocks and bonds, hedge funds, and government issued debt securities. The investment strategy is implemented through the selection of external advisors and managers with the expertise and successful histories in the management of specific asset classes.

**NOTE 12 - RECLASSIFICATIONS**

Certain reclassifications have been made to the 2014 financial statements to conform with the 2015 financial statement presentation.

**NOTE 13 - SUBSEQUENT EVENTS**

The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 10, 2015. No subsequent events have been recognized or disclosed.