



Dakota State University

Financial Report
2017

**DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

BOARD OF REGENTS

Bob Sutton, President	Sioux Falls
Kevin Schieffer, Vice President	Sioux Falls
John W. Bastian, Secretary	Belle Fourche
Jim Morgan	Brookings
Pam Roberts	Pierre
Randy Schaefer	Madison
Jim Thares	Aberdeen
Joan Wink	Howes
Conrad Adam, Student Regent	Pierre

OFFICE OF THE EXECUTIVE DIRECTOR

Dr. Michael G. Rush, Executive Director and CEO

Dr. Monte Kramer, System Vice President of Finance and Administration

DAKOTA STATE UNIVERSITY

Dr. José-Marie Griffiths, President

Dr. Scott McKay, Vice President of Academic Affairs

Stacy Krusemark, Vice President for Business and Administrative Services

Amy Dockendorf, Comptroller



DAKOTA STATE UNIVERSITY

Office of the President
820 N Washington Avenue
Madison, South Dakota 57042

April 1, 2018

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 2017 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, 2017.

Sincerely,

A handwritten signature in black ink that reads "J. M. Griffiths".

José-Marie Griffiths, Ph.D.
President
Dakota State University



April 1, 2018

Dr. José-Marie Griffiths
President
Dakota State University

Dear Dr. Griffiths:

The financial report of Dakota State University for the year ending June 30, 2017 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, 2017.

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, 2017

TABLE OF CONTENTS

Management's Discussion and Analysis	1-7
Statement of Net Position	8
Statement of Financial Position (DSU Foundation)	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Activities and Changes in Net Assets (DSU Foundation)	11
Statement of Cash Flows	12
Statement of Cash Flows (DSU Foundation)	13
Notes to Financial Statements	14-20
Notes to Financial Statements (DSU Foundation)	21-32

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, 2017. 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 \$1,700,000, 14.93%. Cash reserves in select IT funds have been set aside for future planned expenditures. There was also an increase in reserves in the RRR fund for expenses related to the Trojans renovation and Courtyard/LEC that were above the amount covered by bond funds.

Non-current assets increased by \$8,800,000, 23.03% from FY16 to FY17. A decrease in restricted cash of \$10,000,000 was offset by an increase in construction in progress of \$18,400,000. The three main construction in progress projects of the Beacom IT Building, Trojan Center renovation, and the Courtyard/LEC renovation will be completed in FY18.

Total liabilities increased by \$1,200,000, 25.66%. Accounts payable was the majority of the increase with items purchased for summer camps and for the anticipated completion of the building projects.

Condensed Statement of Net Position as of June 30, 2017 and 2016

	<u>FY 2017</u>	<u>FY 2016</u>
Assets		
Current Assets	\$ 13,092,847	\$ 11,392,043
Noncurrent Assets	\$ 47,401,269	\$ 38,526,855
Total Assets	<u>\$ 60,494,116</u>	<u>\$ 49,918,898</u>
Liabilities		
Current Liabilities	\$ 6,093,232	\$ 4,849,076
Noncurrent Liabilities	\$ 20,435,555	\$ 21,258,148
Total Liabilities	<u>\$ 26,528,787</u>	<u>\$ 26,107,224</u>
Net Position		
Invested in Capital, Net of Related Debt	\$ 28,503,221	\$ 19,150,391
Restricted	\$ 1,116,530	\$ 504,300
Unrestricted	\$ 4,345,578	\$ 4,156,983
Total Net Assets	<u>\$ 33,965,329</u>	<u>\$ 23,811,674</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, 2017 and 2016**

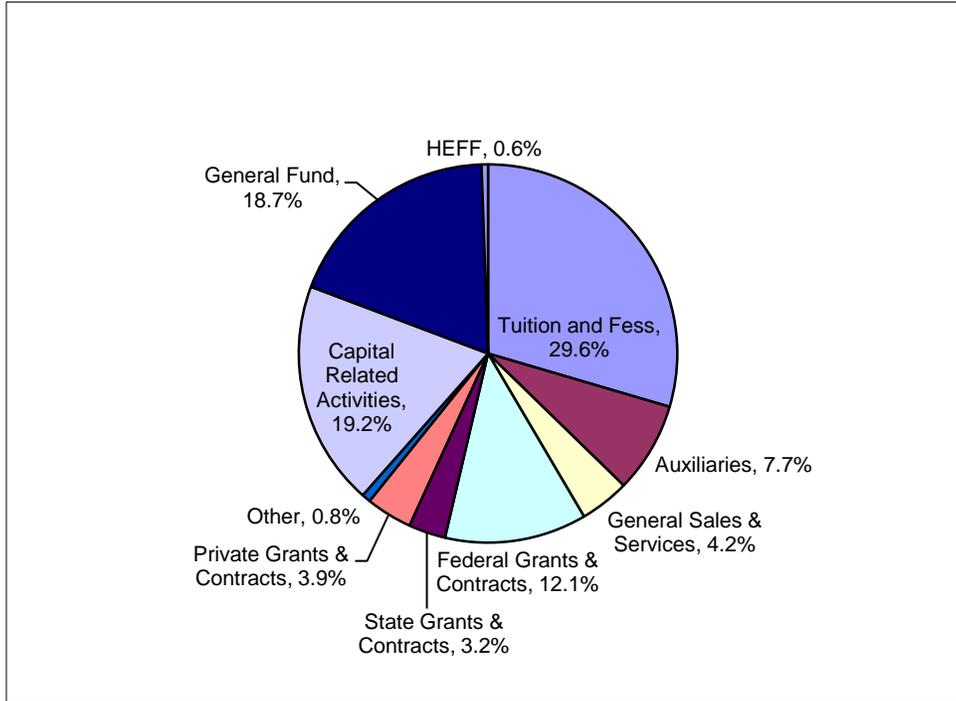
	<u>FY 2017</u>	<u>FY 2016</u>
Operating Revenues	\$ 29,004,753	\$ 27,405,518
Operating Expenses	<u>\$ 41,014,819</u>	<u>\$ 36,752,180</u>
Operating Loss	<u>\$(12,010,066)</u>	<u>\$ (9,346,662)</u>
Non-Operating Revenues	\$ 13,287,071	\$ 13,107,666
Non-Operating Expenses	<u>\$ 1,185,163</u>	<u>\$ 879,938</u>
Non-Operating Income	<u>\$ 12,101,908</u>	<u>\$ 12,227,728</u>
Net Loss/Income	\$ 91,842	\$ 2,881,067
Capital Contributions	<u>\$ 10,061,813</u>	<u>\$ 2,037,078</u>
Increase (Decrease) in Net Assets	\$ 10,153,656	\$ 4,918,144
Net Position, Beginning of Year	\$ 23,811,674	\$ 18,893,529
Prior period adjustment	\$ -	\$ -
Net Position, End of Year	<u>\$ 33,965,329</u>	<u>\$ 23,811,674</u>

Operating revenues increased by \$1,600,000, 5.84% in FY17. 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 \$406,000, auxiliaries increased by \$248,000, general sales and services increased by \$582,000 and grants and contracts increased by \$488,000.

Non-operating revenues are revenues realized through appropriations or non-operating activities such as investment income and Federal PELL grant revenue. Non-operating revenues increased by \$179,000, 1.37%.

Operating expenses increased by \$4,263,000, 11.6%. Vacant positions from FY16 were filled and a couple new positions were added in FY17 which contributed to \$2,030,000 of the operating expense increase. Contractual services and supplies & materials increased by \$2,455,000 due to increased grants and non-capital supply items purchased for the building projects.

The following is an illustration of revenues by source for the year ended June 30, 2017:

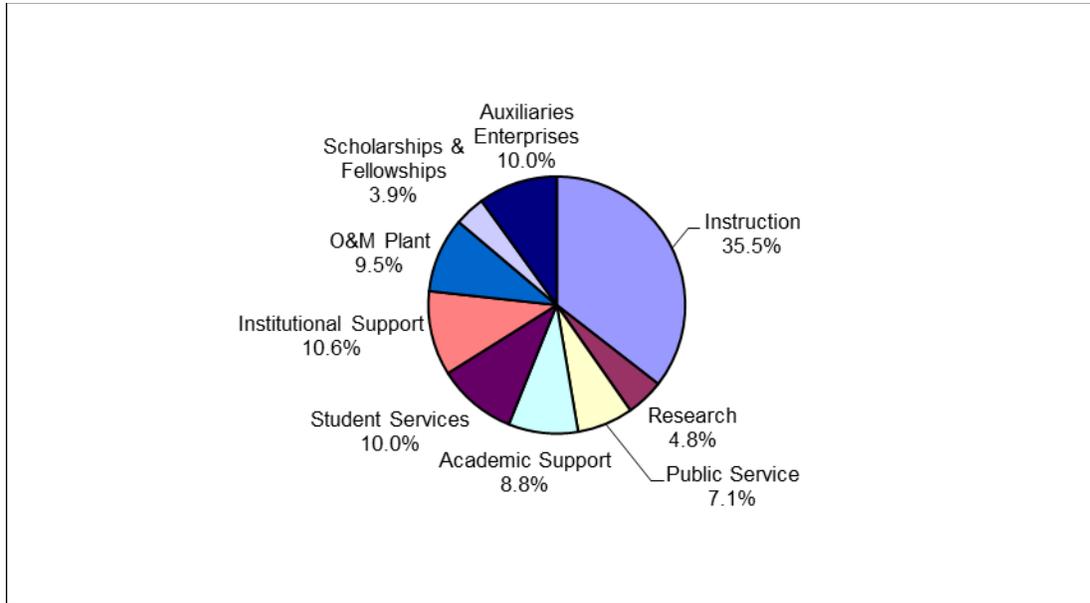


Below is a review of the expenses by the National Association of College and University Business Officers expenditure categories.

NACUBO Expenditure

	<u>FY17</u>	<u>FY16</u>
Instruction	\$ 14,477,242	\$ 13,396,099
Research	\$ 1,941,353	\$ 1,601,820
Public Service	\$ 2,877,490	\$ 1,849,102
Academic Support	\$ 3,568,257	\$ 2,917,654
Student Services	\$ 4,080,776	\$ 3,945,251
Institutional Support	\$ 4,330,283	\$ 3,621,263
O&M Plant	\$ 3,852,996	\$ 3,780,730
Scholarships & Fellowships	\$ 1,571,855	\$ 1,641,092
Auxiliaries Enterprises	\$ 4,061,010	\$ 3,771,347
Unallocated depreciation	\$ 253,558	\$ 227,822
Total	<u>\$ 41,014,819</u>	<u>\$ 36,752,180</u>

The following is an illustration of expenses for the year ended June 30, 2017:



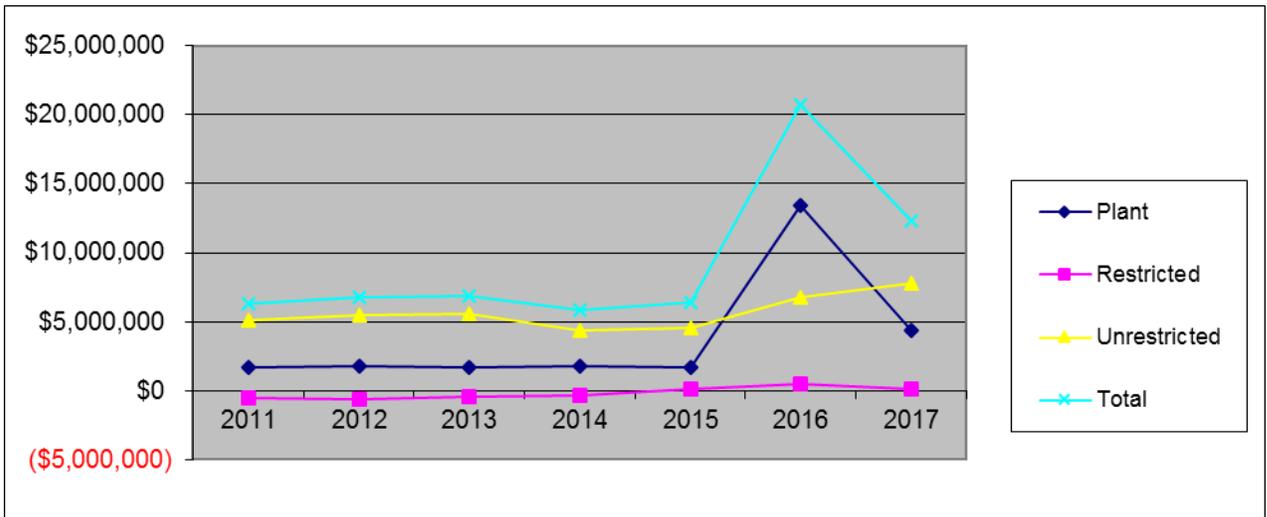
**Condensed Statement of Cash Flows
For the year ended June 30, 2017**

	<u>FY2017</u>	<u>FY2016</u>
Cash Provided by (Used in):		
Operating Activities	\$ (9,638,727)	\$ (6,880,606)
Non Capital Financing Activities	\$ 12,780,071	\$ 12,810,688
Capital and Related Financing Activities	\$ (11,665,431)	\$ 8,392,422
Investing Activities	\$ 146,082	\$ 55,183
Net Increase (Decrease) in Cash	\$ (8,378,005)	\$ 14,377,687
Cash and Cash Equivalents, Beginning of the Year	<u>\$ 20,753,956</u>	<u>\$ 6,376,269</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 12,375,950</u>	<u>\$ 20,753,955</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 grants, \$28.6 million, in the operating activities category, and 2) general appropriations, \$9.8 million, in the non-capital financing activities. The largest payments were for salaries and benefits, \$23.7 million, and payments to vendors for contracted services and supplies, \$11.4 million.

Capital Related Financing Activities included South Dakota Building Authority funding and private capital funding in the amount of \$8.9 million offset by purchases of capital assets for \$20.5 million.

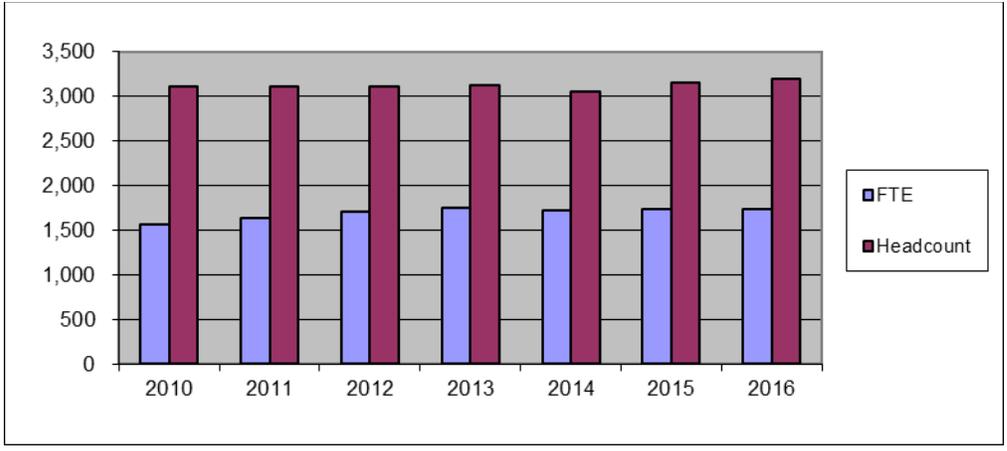
The following is an illustration of cash balances as of June 30, 2017:



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 full-time equivalent and headcount enrollment increased by 2.04% and 1.43% respectively over the prior year.



DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2017

	FY 2017	FY 2016
ASSETS		
Current Assets		
Cash on Deposit - State Treasurer	11,009,405.49	9,163,405.21
Other Cash and Temporary Investments	76,888.68	263,679.64
Accounts Receivable - Students	428,744.92	462,579.24
Accounts Receivable	145,587.22	127,958.62
Notes Receivable	277,195.62	302,515.84
Interest Receivable	170,446.53	146,079.53
Prepaid Expenses and Deferred Charges	25,995.08	61,584.53
Inventory	247,580.73	271,902.52
Due From Federal Sources	516,711.91	462,902.14
Due From Primary Government	144,416.34	102,308.56
Due From Other Component Unit	49,874.53	27,127.35
Total Current Assets	13,092,847.05	11,392,043.18
Non-Current Assets		
Restricted Cash on Deposit - State Treasurer (Debt Service)	1,289,656.06	11,326,870.64
Notes Receivable	1,499,061.00	1,436,956.00
Land	352,225.00	352,225.00
Land Improvements, Net	267,761.40	297,325.75
Infrastructure, Net	2,647,599.19	2,246,244.09
Buildings and Building Improvements, Net	17,807,104.60	18,063,115.60
Equipment and Other Property, Net	1,829,978.39	1,519,725.99
Construction in Progress	21,707,883.71	3,284,391.54
Unamortized Cost of Bond Issuance	0.00	0.00
Total Non-Current Assets	47,401,269.35	38,526,854.61
Deferred Outflows	0.00	0.00
TOTAL ASSETS	60,494,116.40	49,918,897.79
LIABILITIES		
Current Liabilities		
Accounts Payable	2,682,743.32	1,567,522.02
Accrued Wages and Benefits	568,334.05	489,867.37
Accrued Interest Payable	182,120.25	186,390.25
Compensated Absences Payable	742,380.73	649,014.54
Bonds Payable, Net of Unamortized Amount	739,372.90	559,372.90
Obligations Under Capital Leases, Non Capital	370,065.70	301,647.05
Deferred Revenue	541,873.39	869,678.73
Due to Primary Government	29,725.76	27,004.19
Due to Other Component Unit	0.00	0.00
Student Deposits	67,538.77	52,239.04
Agency Funds - Funds Held for Others	169,077.31	146,340.03
Total Current Liabilities	6,093,232.18	4,849,076.12
Non-Current Liabilities		
Compensated Absences Payable	1,602,242.69	1,725,935.90
Bonds Payable, Net of Unamortized Amount	16,398,972.87	17,138,345.77
Obligations Under Capital Leases, Non Capital	208,961.15	167,633.69
Federal Capital Contributions Advance	2,218,756.00	2,218,756.00
Total Non-Current Liabilities	20,428,932.71	21,250,671.36
TOTAL LIABILITIES	26,522,164.89	26,099,747.48
Deferred Inflows	6,622.03	7,476.53
TOTAL LIABILITIES AND DEFERRED INFLOWS	26,528,786.92	26,107,224.01
NET POSITION		
Invested in Capital, Net of Related Debt	28,503,221.22	19,150,390.74
Restricted		
Expendable		
Debt service	254,018.99	241,789.20
Other	862,511.00	262,511.00
Unrestricted	4,345,578.27	4,156,982.84
TOTAL NET POSITION	33,965,329.48	23,811,673.78
TOTAL LIABILITIES AND NET POSITION	60,494,116.40	49,918,897.79

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

With Comparative Totals for June 30, 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,163,683	\$ 769,718
Receivables:		
Interest and dividends	225	225
Investments		
Money market funds	881,074	1,066,485
Cash surrender value of life insurance	118,482	115,115
Securities	11,731,894	13,838,912
Beneficial interest in perpetual trust	315,018	310,621
Land	79,230	79,230
Property and equipment, net	892,319	935,419
TOTAL ASSETS	\$ 16,181,925	\$ 17,115,725
 LIABILITIES		
Gift annuity agreements	46,229	57,823
Accounts Payable	22	-
Assets held for others	446,060	445,770
TOTAL LIABILITIES	492,311	503,593
 NET ASSETS		
Unrestricted	1,721,125	1,257,895
Temporarily restricted	3,123,801	4,739,300
Permanently restricted	10,844,688	10,614,937
TOTAL NET ASSETS	15,689,614	16,612,132
TOTAL LIABILITIES AND NET ASSETS	\$ 16,181,925	\$ 17,115,725

The accompanying notes are an integral part
of these financial statements

DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
JUNE 30, 2017

	FY 2017	FY 2016
OPERATING REVENUES		
Tuition & Fees		
State Support	6,524,578.41	2,846,219.97
Self Support	8,728,091.53	8,500,332.99
HEFF & undistributed tuition	0.00	881,878.58
Total Tuition	15,252,669.94	12,228,431.54
Fees	3,185,682.04	5,804,253.40
Total Tuition and Fees	18,438,351.98	18,032,684.94
Student Financial Assistance	(2,967,778.45)	(2,851,042.63)
Tuition and Fees Net of Student Financial Assistance	15,470,573.53	15,181,642.31
Auxiliaries	4,051,350.42	3,803,346.78
General Sales & Services	2,223,245.38	1,640,768.35
Contracts & Grants - Federal	3,512,769.59	2,597,906.46
Contracts & Grants - State	1,656,125.15	1,474,172.49
Contracts & Grants - Private	2,064,812.45	2,673,228.70
Student Loan Interest	25,394.31	27,043.63
Other Revenues and Additions	481.96	7,409.65
TOTAL OPERATING REVENUES	29,004,752.79	27,405,518.37
OPERATING EXPENSES		
Personal Services	23,784,990.30	21,755,177.06
Travel	790,645.05	706,319.82
Contractual	8,411,145.04	6,931,988.56
Supplies and Materials	4,229,204.01	3,252,904.09
Grants	2,171,466.57	2,259,945.73
Loan Cancellation Expense	53,010.63	64,116.37
Depreciation	1,574,357.35	1,781,728.40
TOTAL OPERATING EXPENSES	41,014,818.95	36,752,180.03
TOTAL OPERATING INCOME/(LOSS)	(12,010,066.16)	(9,346,661.66)
NON-OPERATING REVENUES		
General Fund Appropriations	9,791,642.97	9,480,682.59
School & Public Lands	202,368.44	202,607.06
HEFF	289,524.03	407,178.37
Investment Income	170,448.88	146,082.54
Other Non-Operating PELL Grants	2,833,086.82	2,871,115.66
TOTAL NON-OPERATING REVENUES	13,287,071.14	13,107,666.22
NON-OPERATING EXPENSES		
Interest Expense on Bonds	642,333.60	426,662.49
Other (community center payment to BOR)	123,290.43	123,632.88
Loss on disposal of assets	82,987.35	35,588.52
Bond Issuance Expense	0.00	143,158.42
Contributed Services	336,551.29	150,895.70
TOTAL NON-OPERATING EXPENSES	1,185,162.67	879,938.01
TOTAL NON-OPERATING REVENUES/(EXPENSES)	12,101,908.47	12,227,728.21
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	91,842.31	2,881,066.55
CAPITAL		
HEFF	194,620.12	250,989.31
Capital Grants & Contracts	4,566,720.11	0.00
South Dakota Building Authority	5,300,473.16	1,786,088.63
NET POSITION:		
NET POSITION - BEGINNING OF THE YEAR	23,811,673.78	18,893,529.29
NET POSITION - END OF THE YEAR	33,965,329.48	23,811,673.78

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017
With Comparative Totals for June 30, 2016

	2017			2016	
	Unrestricted	Restricted Temporarily	Permanent	Total	Total
REVENUES AND OTHER SUPPORT					
Contributions	\$ 1,111,895	\$ 437,754	\$ 219,739	\$ 1,769,388	\$ 2,796,894
Investment income	8,783	72,569	-	81,352	856,119
Realized gain (loss) on investments	-	160,259	-	160,259	10,305
Increase (decrease) in fair value of investments	237,117	1,151,172	-	1,388,289	(824,748)
Change in split interest agreements	-	-	10,012	10,012	(32,979)
(Loss) on sale of land	-	-	-	-	(70,000)
Other sources	150,376	-	-	150,376	237,045
TOTAL REVENUES AND OTHER SUPPORT	1,508,172	1,821,754	229,751	3,559,677	2,972,636
DISTRIBUTIONS AND EXPENSES					
Gifts, grants and scholarships	959,706	-	-	959,706	770,222
Investment fees	48,693	-	-	48,693	46,947
Management, general and development	3,430,697	-	-	3,430,697	2,369,441
Depreciation and amortization	43,099	-	-	43,099	43,863
TOTAL DISTRIBUTIONS AND EXPENSES	4,482,195	-	-	4,482,195	3,230,473
Net assets released from satisfaction of donor and program restrictions	3,437,253	(3,437,253)	-	-	-
CHANGE IN NET ASSETS	463,230	(1,615,499)	229,751	(922,518)	(257,837)
NET ASSETS, BEGINNING OF PERIOD	1,257,895	4,739,300	10,614,937	16,612,132	16,869,969
NET ASSETS, END OF PERIOD	\$ 1,721,125	\$ 3,123,801	\$ 10,844,688	\$ 15,689,614	\$ 16,612,132

The accompanying notes are an integral part
of these financial statements

**DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	FY 2017	FY 2016
Tuition, Fees, & Auxiliaries (Net of Scholarship allowance & discounts)	19,521,923.95	18,984,989.09
General Sales & Services	2,277,488.11	1,546,996.87
Federal Grants & Contracts	3,458,959.82	2,636,816.39
State Grants and Contracts	1,591,270.19	1,482,252.56
Private Grants & Contracts	1,737,007.11	3,052,105.11
Other	481.96	7,409.65
Student Loan Interest	25,394.31	27,043.63
Personal Services (salaries & benefits)	(23,736,850.64)	(21,766,714.71)
Travel	(790,645.05)	(706,319.82)
Contractual	(8,408,423.47)	(6,938,223.04)
Supplies & Materials	(3,054,071.47)	(2,855,946.71)
Grants	(2,171,466.57)	(2,259,945.73)
Perkins Loans Issued/Collected from Students	(89,795.41)	(91,069.56)
Net cash provided (used) by Operating Activities	<u>(9,638,727.16)</u>	<u>(6,880,606.27)</u>
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
General Fund Appropriations	9,791,642.97	9,480,682.59
School & Public Lands	202,368.44	202,607.06
HEFF	289,524.03	407,178.37
Direct Loan Receipts	11,790,506.00	11,800,188.00
Direct Loan Disbursements	(11,790,506.00)	(11,800,188.00)
Other Non-Operating Revenue PELL Grants	2,833,086.82	2,871,115.66
Payments for Other Expenditures	(336,551.62)	(150,895.70)
Net Cash Flows Provided by Noncapital Financing Activities	<u>12,780,070.64</u>	<u>12,810,687.98</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES		
HEFF	194,620.12	250,989.31
Capital Grants & Contracts	4,566,720.10	0.00
Proceeds from Capital Debt & Leases	0.00	12,549,526.67
Revenue Bond Discounts and Related Costs	0.00	(143,158.42)
Community Center Payments to Board of Regents	(123,290.43)	(123,632.88)
Principal Paid on Indebtedness	(360,253.89)	(380,006.13)
Interest on Indebtedness	(736,831.00)	(363,502.25)
Purchase of Capital Assets	(20,506,868.68)	(5,183,883.10)
South Dakota Building Authority	5,300,473.16	1,786,088.63
Net Cash Used by Capital and Related Financing Activities	<u>(11,665,430.62)</u>	<u>8,392,421.83</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>146,081.88</u>	<u>55,183.40</u>
Net cash Provided (used)	<u>(8,378,005.26)</u>	<u>14,377,686.94</u>
Cash - Beginning of the year	<u>20,753,955.50</u>	<u>6,376,268.56</u>
Cash - End of the year	<u>12,375,950.24</u>	<u>20,753,955.50</u>
RECONCILIATION OF NET OPERATING REVENUES/(EXPENSES) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	(12,010,066.16)	(9,346,661.66)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation, Bad Debt, and Loan Cancellation Expense	1,627,367.98	1,845,844.77
Change in Assets and Liabilities:		
Accounts Receivable	(156,664.97)	(119,343.73)
Inventory	24,321.79	(800.68)
Accounts Payable	876,314.20	740,355.03
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>(9,638,727.16)</u>	<u>(6,880,606.27)</u>

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
With Comparative Totals for June 30, 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (922,518)	\$ (257,837)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	43,099	43,863
Permanently restricted gifts	(219,739)	(1,021,115)
Net increase (decrease) in fair value of investments	(1,388,289)	824,748
Realized (gain) on investments	(160,259)	(10,305)
Realized loss on sale of land	-	70,000
Changes in assets and liabilities:		
Accounts payable	22	-
Beneficial interest in perpetual trust	(4,397)	32,979
Increase in life insurance contracts	(3,367)	(11,423)
(Decrease) in assets held for others	290	(854,077)
Gift annuity agreements	(11,594)	(6,124)
	<u>(2,666,752)</u>	<u>(1,189,291)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property and equipment	-	30,000
Proceeds from sale and maturities of investment securities	5,454,842	1,870,341
Purchase of investment securities	(1,613,864)	(4,306,487)
	<u>3,840,978</u>	<u>(2,406,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	-	(20,000)
Permanently restricted gifts	219,739	1,021,115
	<u>219,739</u>	<u>1,001,115</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,393,965</u>	<u>(2,594,322)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>769,718</u>	<u>3,364,040</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,163,683</u>	<u>\$ 769,718</u>
SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING ACTIVITIES		
Operating expenses paid by DSU on behalf of Foundation included in unrestricted revenue and other support	<u>\$ 703,381</u>	<u>\$ 303,139</u>

The accompanying notes are an integral part
of these financial statements

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 2017 was \$9,791,643.

5. Tuition and Fees

The University collects and remits tuition and selected fees to the Board of Regents Tuition and Fee pool. 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, 2017 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	352,225			352,225
Land Improvements	1,054,404			1,054,404
Infrastructure	3,290,316	559,512		3,849,828
Buildings	38,993,778	776,936		39,770,714
Furniture, fixtures, and equip.	2,898,547	677,067	(257,916)	3,317,698
Library materials	3,530,855	69,861	(109,462)	3,491,255
Total	50,120,124	2,083,377	(367,378)	51,836,123
Construction in Progress	3,284,392	18,423,492		21,707,884
Less accumulated depreciation:				
Land Improvements	757,078	29,564		786,642
Infrastructure	1,044,072	158,157		1,202,229
Buildings	20,930,663	1,032,947		21,963,609
Furniture, fixtures, and equip.	1,812,697	253,558	(174,929)	1,891,326
Library materials	3,096,979	100,132	(109,462)	3,087,649
Total	27,641,488	1,574,357	(284,390)	28,931,455
Capital Assets, net	25,763,028	18,932,511	(82,987)	44,612,552

10. Long-term liability activity for the year ended June 30, 2017 was as follows:

Compensated Absences Payable:

Compensated absences include accrued annual leave, sick leave and compensatory time earned as of June 30, 2017. 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, 2017 are as follows:

	<u>Tablet PC</u>
Balance 6/30/16	469,280.73
Additions	607,500.00
Payments	<u>(497,753.89)</u>
Balance 6/30/17	<u><u>579,026.84</u></u>
Due FY18 principal	370,065.69
Due FY19 principal	<u>208,961.15</u>
Total Principal	<u><u>579,026.84</u></u>
Due FY18 interest	14,312.20
Due FY19 interest	<u>3,615.26</u>
Total Interest	<u><u>17,927.46</u></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 South Dakota Board of Regents issued series 2015 in December 2015. DSU's portion was \$12,000,000 of which \$5,000,000 is for the renovation of the student union and \$7,000,000 is for the renovation of the former Madison hospital for student housing and a learning engagement center.

The series 2007, 2008, 2014B, and 2015 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:

TOTAL			
Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2018	650,000	719,266	1,369,266
2019	675,000	693,566	1,368,566
2020	700,000	664,128	1,364,128
2021	735,000	632,096	1,367,096
2022	775,000	598,426	1,373,426
2023-2027	4,020,000	2,435,616	6,455,616
2028-2032	2,735,000	1,639,988	4,374,988
2033-2037	2,975,000	1,002,000	3,977,000
2038-2041	2,165,000	219,750	2,384,750
Total	15,430,000	8,604,836	24,034,836

11. Operating Leases:

The University has entered into the following leases:

Student housing. This agreement is with the Madison Housing & Redevelopment Commission and is for a period of three years.

The University leases a parking lot from the DSU Foundation. The agreement is through June 20, 2019.

The University leased a 24 passenger bus for athletic team travel.

The schedule of operating leases remaining to be paid as of June 30, 2017 are as follows:

Year	Housing Lease	Parking Lot Lease	Bus Lease	Total
2018	135,000	4,000	15,180	154,180
2019	146,000	4,000	15,180	165,180
2020	152,000	0	1,265	153,265
Total	433,000	8,000	31,625	472,625
Balance 6/30/16	103,680	0	45,540	149,220
Additions	433,000	12,000	0	445,000
Reductions	(103,680)	(4,000)	(13,915)	(121,595)
Balance 6/30/17	433,000	8,000	31,625	472,625

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	\$ 12,056,717	\$ 124,043	\$ 881,257	\$ 1,405,146	\$ 10,080			\$ 14,477,242
Research	\$ 577,835	\$ 122,703	\$ 68,043	\$ 356,836	\$ 815,937			\$ 1,941,353
Public Service	\$ 1,283,664	\$ 36,136	\$ 1,361,306	\$ 192,383	\$ 4,000			\$ 2,877,490
Academic Support	\$ 2,227,905	\$ 124,207	\$ 767,868	\$ 348,146	\$ -			\$ 3,468,126
Student Services	\$ 2,678,217	\$ 275,748	\$ 711,774	\$ 393,046	\$ 21,990			\$ 4,080,776
Institutional Support	\$ 2,915,256	\$ 99,467	\$ 1,259,805	\$ 43,976	\$ 11,780			\$ 4,330,283
O & M of Plant	\$ 1,115,785	\$ 635	\$ 893,381	\$ 622,526	\$ -		\$ 1,574,357	\$ 4,206,685
Scholarships & Fellow ships	\$ 211,147	\$ -	\$ 17	\$ -	\$ 1,307,680	\$ 53,011		\$ 1,571,855
Auxiliary Enterprises	\$ 718,464	\$ 7,706	\$ 2,467,694	\$ 867,146				\$ 4,061,010
TOTAL	\$ 23,784,990	\$ 790,645	\$ 8,411,145	\$ 4,229,204	\$ 2,171,467	\$ 53,011	\$ 1,574,357	\$ 41,014,819

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2017 and 2016, the value of contributed services and facilities meeting the requirements for recognition in the financial statements was \$703,381 and \$303,139, respectively.

Contributions

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

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

2. INVESTMENTS

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

	2017		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Other investments	\$ 197,200	\$ 81,669	\$ 278,869
Mutual Funds	9,547,122	1,905,903	11,453,025
	\$ 9,744,322	\$ 1,987,572	\$11,731,894

	2016		
	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Other investments	\$ 197,200	\$ 33,857	\$ 231,057
Corporate stocks	5,876,556	1,059,131	6,935,687
Corporate and federal bonds	6,786,737	(114,569)	6,672,168
	\$ 12,860,493	\$ 978,419	\$13,838,912

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2017

2. INVESTMENTS, continued

The Foundation has investments in two separate limited liability companies of \$179,000 and \$132,252 at June 30, 2017 and 2016, 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 \$446,060 and \$445,770 as of June 30, 2017 and 2016, respectively, is recorded as a liability in the accompanying statements of financial position.

3. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016 are as follows:

June 30, 2017		
Investment securities		\$11,453,025
Alternative investments		<u>278,869</u>
		<u>\$11,731,894</u>
June 30, 2016		
Investment securities		\$13,607,855
Alternative investments		<u>231,057</u>
		<u>\$13,838,912</u>

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

	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2017			
Investment securities	\$ 11,453,025	\$ -	\$ -
Alternative investments	<u>-</u>	<u>-</u>	<u>278,869</u>
	<u>\$ 11,453,025</u>	<u>\$ -</u>	<u>\$ 278,869</u>
June 30, 2016			
Investment securities	\$ 13,607,855	\$ -	\$ -
Alternative investments	<u>-</u>	<u>-</u>	<u>231,057</u>
	<u>\$ 13,607,855</u>	<u>\$ -</u>	<u>\$ 231,057</u>

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2017

3. FAIR VALUE MEASUREMENT, continued

Following is a reconciliation of activity for the year ended June 30, 2017 and 2016, for assets measured at fair value based upon significant unobservable (non-market) information:

	Alternative Investments
June 30, 2017	
Balance, beginning of year	\$ 231,057
Realized and unrealized gains (losses) including earnings	47,812
	\$ 278,869
June 30, 2016	
Balance, beginning of year	\$ 249,981
Realized and unrealized gains (losses) including earnings	(18,924)
	\$ 231,057

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 and 2016, consists of the following:

	Estimated Useful Life	2017	2016
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		(460,858)	(417,758)
		\$ 892,319	\$ 935,419

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

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 statement of financial position. Assets held in charitable perpetual trust as of June 30, 2017 and 2016 were \$315,018 and \$310,621, respectively, and are reported at fair value in the Foundation's statement of financial position. Changes in fair value of charitable remainder trusts are reflected as changes in unrestricted net assets in the Foundation's statement of activities.

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 fair 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 \$115,801 and \$106,497 as of June 30, 2017 and 2016, respectively. The estimated present value of future payments to be made under these agreements, discounted at rates from 2.0% to 4.0%, totaled \$46,229 and \$57,823 as of June 30, 2017 and 2016, respectively.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

7. 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 2017 are not included as liabilities or expenses in the accompanying 2017 financial statements. The amount of scholarships to be awarded is approximately \$1,098,063 as of June 30, 2017.

OPERATING LEASES

The Foundation has a parking lot lease agreement with DSU which required DSU to pay the Foundation \$4,000 annually for 2017. 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 \$12,306 and \$17,675 for the years ended June 30, 2017 and 2016, 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 (total commitment \$584,220).

The Foundation leases advertising space on a sign. Lease income received from this lease was \$106,250 and \$166,550 for the years ended June 30, 2017 and 2016, respectively.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2017

8. NET ASSETS

	2017	2016
Unrestricted net assets	\$ 1,721,125	\$ 1,257,895
Temporarily restricted net assets	3,123,801	4,739,300
Permanently restricted net assets	10,844,688	10,614,937
Total net assets	\$15,689,614	\$16,612,132

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:

	2017	2016
DSU scholarships	\$ 579,949	\$ (71,591)
DSU departmental expenses	(392,951)	(393,158)
DSU buildings and equipment	2,936,803	5,204,049
Total	\$ 3,123,801	\$ 4,739,300

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:

	2017	2016
DSU scholarships	\$ 10,228,478	\$ 9,998,727
DSU departmental expenses	516,210	516,210
DSU buildings and equipment	100,000	100,000
Total	\$ 10,844,688	\$ 10,614,937

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

9. 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

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2017

9. ENDOWMENTS, continued

The composition of Endowment Net Assets by fund type as of June 30, 2017 and 2016, is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017			
Donor-restricted endowment funds	\$ (182,664)	\$10,694,688	\$10,512,024
Board-designated endowment funds	<u>12,938</u>	<u>150,000</u>	<u>162,938</u>
	<u>\$ (169,726)</u>	<u>\$10,844,688</u>	<u>\$10,674,962</u>
June 30, 2016			
Donor-restricted endowment funds	\$ (978,203)	\$10,464,937	\$ 9,486,734
Board-designated endowment funds	<u>(4,555)</u>	<u>150,000</u>	<u>145,445</u>
	<u>\$ (982,758)</u>	<u>\$10,614,937</u>	<u>\$ 9,632,179</u>

Changes in Endowment Net Assets for the year ending June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ (982,758)	\$10,614,937	\$ 9,632,179
Investment return:			
Net depreciation (realized and unrealized)	813,032	-	813,032
Change in split -interests	-	10,012	10,012
Contributions	-	219,739	219,739
	<u>\$ (169,726)</u>	<u>\$10,844,688</u>	<u>\$10,674,962</u>

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2017

9. ENDOWMENTS, continued

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.

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 approximately \$154,000 and \$800,000 as of June 30, 2017 and 2016. 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.

10. SUBSEQUENT EVENTS

Events occurring after June 30, 2017 were evaluated by management on October 1, 2017, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.