



Dakota State University

Financial Report
2016

**DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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DAKOTA STATE UNIVERSITY

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January 25, 2017

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 2016 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, 2016.

Sincerely,

A handwritten signature in blue ink that reads "José-Marie Griffiths". The signature is fluid and cursive, with the first name "José" and last name "Griffiths" clearly legible.

Dr. José-Marie Griffiths
President
Dakota State University



January 25, 2017

Dr. José-Marie Griffiths
President
Dakota State University

Dear Dr. Griffiths:

The financial report of Dakota State University for the year ending June 30, 2016 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 not-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, 2016.

Sincerely,

A handwritten signature in black ink that reads "Stacy Krusemark". The signature is written in a cursive style with a large, stylized initial "S".

Stacy Krusemark
Vice President for Business and Administrative Services

DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDING JUNE 30, 2016

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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, 2016. 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 \$3,300,000, 41.24%. Nearly \$1,000,000 of the increase is attributed to the Trojan Center and Residence Life construction projects. This includes increased balances in RRR funds, the General Activity Fee fund to pay for the bond payments, and investment earnings on cash balances in the project funds. Starting in fiscal year 2016, program fees were standardized across the Board of Regents institutions with revenue being used for instructional equipment and salaries. Budgets were conservative the first year of the standardization which created some increased cash balances. There were a number of vacancies that included instructors, two college dean positions and the Provost/Vice President for Academic Affairs where budgeted funds were not all used. The instructor positions were filled with adjuncts when needed while searches continue to be done in order to fill open positions.

Non-current assets increased by \$14,500,000, 60.78% from FY15 to FY16. In addition to the Trojan Center and Residence Life projects, the University is also building a new classroom building funded through HEFF (Higher Education Facility Fund) and private funds. Construction in progress increased by \$3,100,000 from all three projects and restricted cash increased by \$11,100,000 from bond funds received for the Trojan Center and Residence Life projects.

Total liabilities increased by \$13,000,000 with \$12,000,000 of that amount for the 2015 series bonds issued for the Trojan Center and Residence Life projects. There was also an increase in accounts payable of \$400,000 and deferred revenue of \$380,000.

**Condensed Statement of Net Position
as of June 30, 2016 and 2015**

	<u>FY 2016</u>	<u>FY 2015</u>
Assets		
Current Assets	\$ 11,392,043	\$ 8,073,909
Noncurrent Assets	\$ 38,526,855	\$ 23,961,808
Total Assets	<u>\$ 49,918,898</u>	<u>\$ 32,035,717</u>
Liabilities		
Current Liabilities	\$ 4,849,076	\$ 3,986,178
Noncurrent Liabilities	\$ 21,258,148	\$ 9,148,011
Total Liabilities	<u>\$ 26,107,224</u>	<u>\$ 13,134,188</u>
Net Position		
Invested in Capital, Net of Related Debt	\$ 19,150,391	\$ 16,832,319
Restricted	\$ 504,300	\$ 500,669
Unrestricted	\$ 4,156,983	\$ 1,568,542
Total Net Assets	<u>\$ 23,811,674</u>	<u>\$ 18,901,529</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, 2016 and 2015**

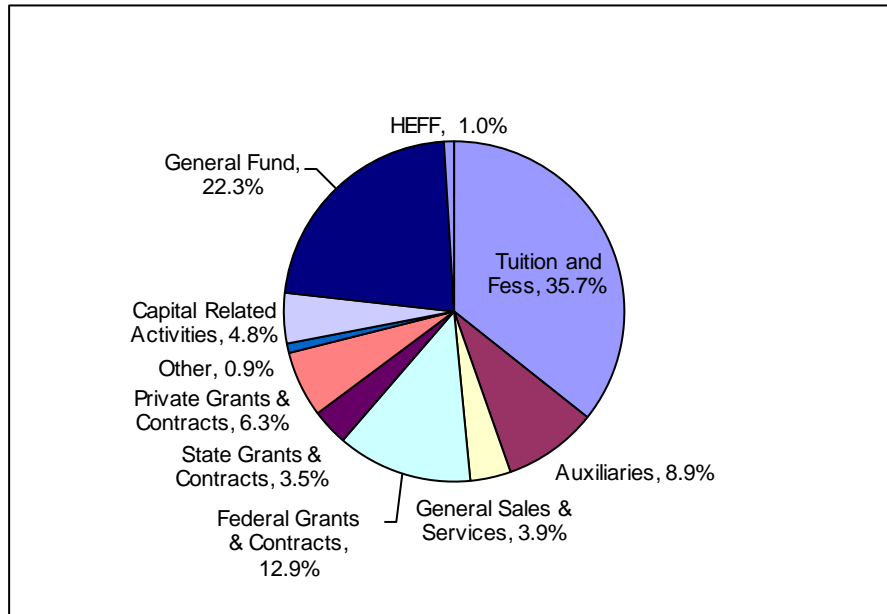
	<u>FY 2016</u>	<u>FY 2015</u>
Operating Revenues	\$ 27,405,518	\$ 26,116,498
Operating Expenses	<u>\$ 36,752,180</u>	<u>\$ 36,618,081</u>
Operating Loss	<u>\$ (9,346,662)</u>	<u>\$(10,501,583)</u>
Non-Operating Revenues	\$ 13,107,666	\$ 9,875,108
Non-Operating Expenses	<u>\$ 879,938</u>	<u>\$ 556,312</u>
Non-Operating Income	<u>\$ 12,227,728</u>	<u>\$ 9,318,796</u>
Net Loss/Income	\$ 2,881,067	\$ (1,182,786)
Capital Contributions	<u>\$ 2,037,078</u>	<u>\$ 777,813</u>
Increase (Decrease) in Net Assets	\$ 4,918,144	\$ (404,973)
Net Position, Beginning of Year	\$ 18,893,529	\$ 19,298,502
Prior period adjustment	<u>\$ -</u>	<u>\$ -</u>
Net Position, End of Year	<u>\$ 23,811,674</u>	<u>\$ 18,893,529</u>

Operating revenues increased by \$1,290,000, 4.94% in FY16. 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 \$950,000, auxiliaries increased by \$420,000, general sales and services increased by \$860,000 and private grants and contracts increased by \$1,540,000. These increases were offset by a decrease in Federal Grants and contracts do to PELL grant revenue of \$2,870,000 now being reported in the non-operating section.

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 \$3,230,000. This was a result of reclassifying PELL grant revenue as non-operating and increases in HEFF funds of \$181,000 and investment income of \$91,000.

Operating expenses increased by \$134,000, .37%. A decrease of \$780,000 in personal services was offset by an increase in contractual services and supplies & materials.

The following is an illustration of revenues by source for the year ended June 30, 2016:

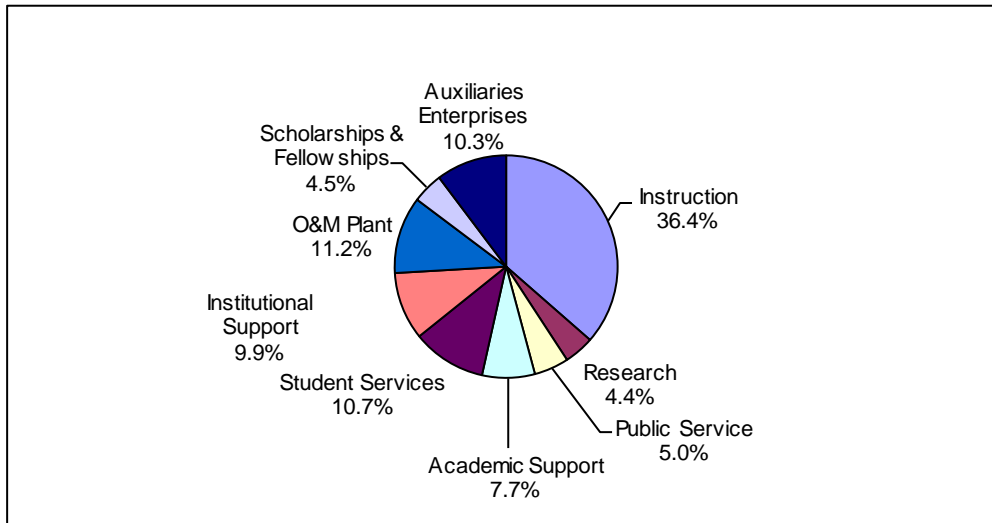


Below is a review of the expenses by the National Association of College and University Business Officers expenditure categories.

NACUBO Expenditure

	<u>FY16</u>	<u>FY15</u>
Instruction	\$ 13,396,099	\$ 14,438,454
Research	\$ 1,601,820	\$ 807,791
Public Service	\$ 1,849,102	\$ 1,980,247
Academic Support	\$ 2,811,801	\$ 3,098,240
Student Services	\$ 3,945,251	\$ 4,080,950
Institutional Support	\$ 3,621,263	\$ 3,457,658
O&M Plant	\$ 4,115,010	\$ 2,957,267
Scholarships & Fellowships	\$ 1,641,092	\$ 2,305,577
Auxiliaries Enterprises	\$ 3,770,743	\$ 3,491,897
Total	<u>\$ 36,752,180</u>	<u>\$ 36,618,081</u>

The following is an illustration of expenses for the year ended June 30, 2016:



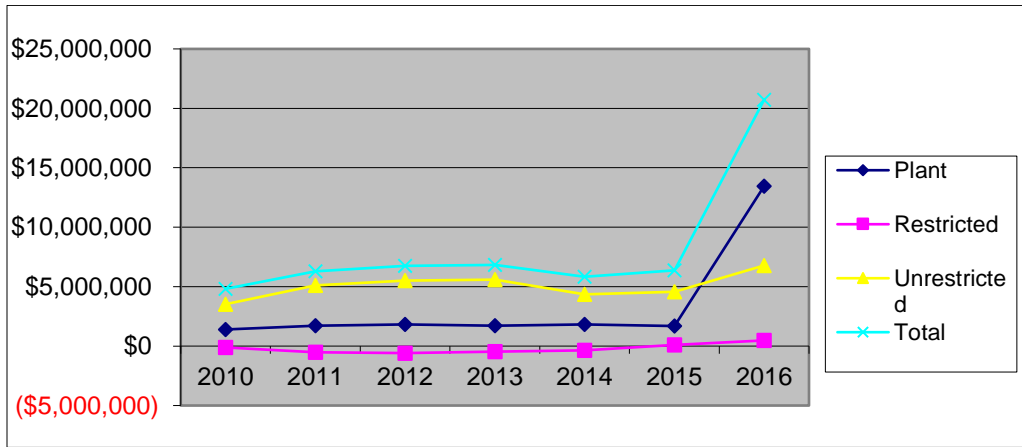
**Condensed Statement of Cash Flows
For the year ended June 30, 2016**

	FY2016	FY2015
Cash Provided by (Used in):		
Operating Activities	\$ (6,880,606)	\$ (7,998,382)
Non Capital Financing Activities	\$ 12,810,688	\$ 9,819,926
Capital and Related Financing Activities	\$ 8,392,422	\$ (1,323,898)
Investing Activities	\$ 55,183	\$ 53,971
Net Increase (Decrease) in Cash	\$ 14,377,687	\$ 551,618
Cash and Cash Equivalents, Beginning of the Year	\$ 6,376,269	\$ 5,824,651
Cash and Cash Equivalents, End of the Year	\$ 20,753,955	\$ 6,376,269

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, \$27.7 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, \$21.7 million, and payments to vendors for contracted services and supplies, \$9.7 million.

Capital Related Financing Activities included increases in South Dakota Building Authority funding and proceeds from capital debt in the amount of \$14.3 million offset by purchases of capital assets for \$5.1 million.

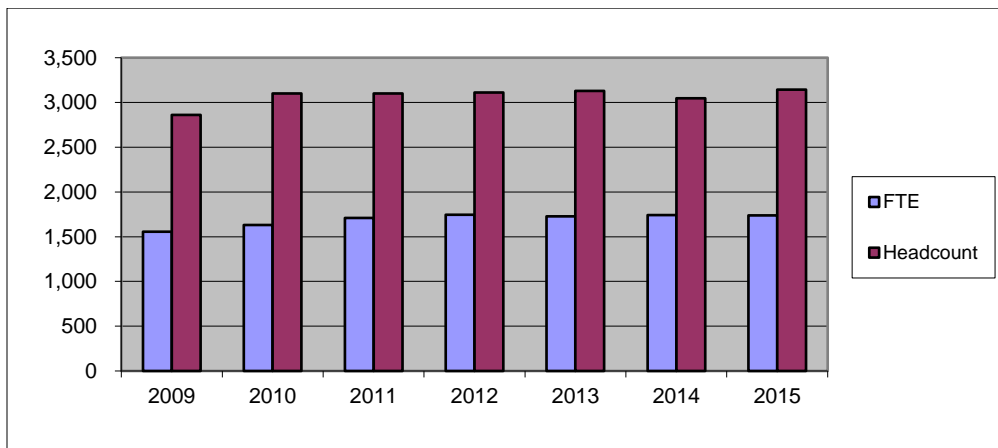
The following is an illustration of cash balances as of June 30, 2016:



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 increase by 6.84% and 3.22% respectively over the prior year.



DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2016

	FY 2016	FY 2015
ASSETS		
Current Assets		
Cash on Deposit - State Treasurer	9,163,405.21	6,088,137.92
Other Cash and Temporary Investments	263,679.64	49,973.03
Accounts Receivable - Students	462,579.24	412,157.36
Accounts Receivable	127,958.62	120,957.54
Notes Receivable	302,515.84	385,329.65
Interest Receivable	146,079.53	55,180.39
Prepaid Expenses and Deferred Charges	61,584.53	43,743.32
Inventory	271,902.52	271,101.84
Due From Federal Sources	462,902.14	501,812.07
Due From Primary Government	102,308.56	137,515.98
Due From Other Component Unit	27,127.35	0.00
Total Current Assets	11,392,043.18	8,065,909.10
Non-Current Assets		
Restricted Cash on Deposit - State Treasurer (Debt Service)	11,326,870.64	238,157.60
Notes Receivable	1,436,956.00	1,327,189.00
Land	352,225.00	89,820.00
Land Improvements, Net	297,325.75	326,890.10
Infrastructure, Net	2,246,244.09	2,380,504.43
Buildings and Building Improvements, Net	18,063,115.60	17,979,144.41
Equipment and Other Property, Net	1,519,725.99	1,431,664.64
Construction in Progress	3,284,391.54	188,438.21
Unamortized Cost of Bond Issuance	0.00	0.00
Total Non-Current Assets	38,526,854.61	23,961,808.39
Deferred Outflows	0.00	0.00
TOTAL ASSETS	49,918,897.79	32,027,717.49
LIABILITIES		
Current Liabilities		
Accounts Payable	1,567,522.02	1,151,922.75
Accrued Wages and Benefits	489,867.37	539,050.68
Accrued Interest Payable	186,390.25	56,424.25
Compensated Absences Payable	649,014.54	755,562.58
Bonds Payable, Net of Unamortized Amount	559,372.90	366,431.11
Obligations Under Capital Leases, Non Capital	301,647.05	357,817.62
Deferred Revenue	869,678.73	490,802.32
Due to Primary Government	27,004.19	33,238.67
Due to Other Component Unit	0.00	0.00
Student Deposits	52,239.04	59,538.04
Agency Funds - Funds Held for Others	146,340.03	175,389.55
Total Current Liabilities	4,849,076.12	3,986,177.57
Non-Current Liabilities		
Compensated Absences Payable	1,725,935.90	1,581,742.20
Bonds Payable, Net of Unamortized Amount	17,138,345.77	5,197,712.15
Obligations Under Capital Leases, Non Capital	167,633.69	141,469.25
Federal Capital Contributions Advance	2,218,756.00	2,218,756.00
Total Non-Current Liabilities	21,250,671.36	9,139,679.60
TOTAL LIABILITIES	26,099,747.48	13,125,857.17
Deferred Inflows	7,476.53	8,331.03
TOTAL LIABILITIES AND DEFERRED INFLOWS	26,107,224.01	13,134,188.20
NET POSITION		
Invested in Capital, Net of Related Debt	19,150,390.74	16,832,318.53
Restricted		
Expendable		
Debt service	241,789.20	238,157.60
Other	262,511.00	262,511.00
Unrestricted	4,156,982.84	1,560,542.16
TOTAL NET POSITION	23,811,673.78	18,893,529.29
TOTAL LIABILITIES AND NET POSITION	49,918,897.79	32,027,717.49

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

With Comparative Totals for June 30, 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 769,718	\$ 3,364,040
Receivables:		
Interest and dividends	225	225
Investments		
Money market funds	1,066,485	733,985
Cash surrender value of life insurance	115,115	103,692
Securities	13,838,912	12,613,996
Beneficial interest in perpetual trust	310,621	331,495
Land	79,230	179,230
Property and equipment, net	935,419	978,518
Loan origination fees, net	-	763
	<u>\$ 17,115,725</u>	<u>\$ 18,305,944</u>
LIABILITIES		
Gift annuity agreements	57,823	51,699
Long-term loans	-	20,000
Assets held for others	445,770	1,364,276
	<u>503,593</u>	<u>1,435,975</u>
NET ASSETS		
Unrestricted	1,257,895	1,599,197
Temporarily restricted	4,739,300	5,643,971
Permanently restricted	10,614,937	9,626,801
	<u>16,612,132</u>	<u>16,869,969</u>
TOTAL NET ASSETS	<u>16,612,132</u>	<u>16,869,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,115,725</u>	<u>\$ 18,305,944</u>

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, 2016

	FY 2016	FY 2015
OPERATING REVENUES		
Tuition & Fees		
State Support	2,846,219.97	3,719,867.76
Self Support	8,500,332.99	7,475,052.07
HEFF & undistributed tuition	881,878.58	718,997.41
Total Tuition	12,228,431.54	11,913,917.24
Fees	5,804,253.40	4,966,039.65
Total Tuition and Fees	18,032,684.94	16,879,956.89
Student Financial Assistance	(2,851,042.63)	(2,647,481.00)
Tuition and Fees Net of Student Financial Assistance	15,181,642.31	14,232,475.89
Auxiliaries	3,803,346.78	3,385,113.82
General Sales & Services	1,640,768.35	783,870.48
Contracts & Grants - Federal	2,597,906.46	5,228,869.09
Contracts & Grants - State	1,474,172.49	1,310,385.45
Contracts & Grants - Private	2,673,228.70	1,137,094.72
Student Loan Interest	27,043.63	24,384.11
Other Revenues and Additions	7,409.65	14,304.56
TOTAL OPERATING REVENUES	27,405,518.37	26,116,498.12
OPERATING EXPENSES		
Personal Services	21,755,177.06	22,531,286.98
Travel	706,319.82	703,332.80
Contractual	6,931,988.56	6,359,959.96
Supplies and Materials	3,252,904.09	3,070,739.99
Grants	2,259,945.73	2,143,660.64
Loan Cancellation Expense	64,116.37	55,321.03
Depreciation	1,781,728.40	1,753,779.27
TOTAL OPERATING EXPENSES	36,752,180.03	36,618,080.67
TOTAL OPERATING INCOME/(LOSS)	(9,346,661.66)	(10,501,582.55)
NON-OPERATING REVENUES		
General Fund Appropriations	9,480,682.59	9,412,008.45
School & Public Lands	202,607.06	182,134.64
HEFF	407,178.37	225,783.02
Investment Income	146,082.54	55,182.37
Other Non-Operating PELL Grants	2,871,115.66	0.00
TOTAL NON-OPERATING REVENUES	13,107,666.22	9,875,108.48
NON-OPERATING EXPENSES		
Interest Expense on Bonds	426,662.49	290,388.65
Other (community center payment to BOR)	123,632.88	123,728.56
Loss on disposal of assets	35,588.52	0.00
Bond Issuance Expense	143,158.42	0.00
Contributed Services	150,895.70	142,194.91
TOTAL NON-OPERATING EXPENSES	879,938.01	556,312.12
TOTAL NON-OPERATING REVENUES/(EXPENSES)	12,227,728.21	9,318,796.36
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	2,881,066.55	(1,182,786.19)
CAPITAL		
HEFF	250,989.31	589,374.85
South Dakota Building Authority	1,786,088.63	188,438.21
NET POSITION:		
NET POSITION - BEGINNING OF THE YEAR	18,893,529.29	19,298,502.42
NET POSITION - END OF THE YEAR	23,811,673.78	18,893,529.29

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016
With Comparative Totals for June 30, 2015

	2016			2015	
	Unrestricted	Restricted Temporarily	Permanent	Total	Total
REVENUES AND OTHER SUPPORT					
Contributions	\$ 722,810	\$ 1,052,969	\$ 1,021,115	\$ 2,796,894	\$ 5,081,676
Investment income	81,675	774,444	-	856,119	703,254
Realized gain (loss) on investments	-	10,305	-	10,305	(90,391)
Increase (decrease) in fair value of investments	(632,196)	(192,552)	-	(824,748)	(306,982)
Change in split interest agreements	-	-	(32,979)	(32,979)	(32,290)
(Loss) on sale of land	(70,000)	-	-	(70,000)	-
Net assets released from satisfaction of donor and program restrictions	2,549,837	(2,549,837)	-	-	-
Other sources	237,045	-	-	237,045	216,260
TOTAL REVENUES AND OTHER SUPPORT	2,889,171	(904,671)	988,136	2,972,636	5,571,527
DISTRIBUTIONS AND EXPENSES					
Gifts, grants and scholarships	770,222	-	-	770,222	760,766
Investment fees	46,947	-	-	46,947	44,036
Management, general and development	2,369,441	-	-	2,369,441	694,354
Depreciation and amortization	43,863	-	-	43,863	44,626
TOTAL DISTRIBUTIONS AND EXPENSES	3,230,473	-	-	3,230,473	1,543,782
CHANGE IN NET ASSETS	(341,302)	(904,671)	988,136	(257,837)	4,027,745
NET ASSETS, BEGINNING OF PERIOD	1,599,197	5,643,971	9,626,801	16,869,969	12,842,224
NET ASSETS, END OF PERIOD	\$ 1,257,895	\$ 4,739,300	\$ 10,614,937	\$ 16,612,132	\$ 16,869,969

The accompanying notes are an integral part
of these financial statements

**DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	FY 2016	FY 2015
Tuition, Fees, & Auxiliaries (Net of Scholarship allowance & discounts)	18,984,989.09	17,617,589.71
General Sales & Services	1,546,996.87	932,876.70
Federal Grants & Contracts	2,636,816.39	5,521,184.77
State Grants and Contracts	1,482,252.56	1,292,677.01
Private Grants & Contracts	3,052,105.11	1,054,290.76
Other	7,409.65	14,304.56
Student Loan Interest	27,043.63	24,384.11
Personal Services (salaries & benefits)	(21,766,714.71)	(22,394,502.83)
Travel	(706,319.82)	(703,332.80)
Contractual	(6,938,223.04)	(6,396,430.84)
Supplies & Materials	(2,855,946.71)	(2,828,183.58)
Grants	(2,259,945.73)	(2,143,660.64)
Perkins Loans Issued/Collected from Students	(91,069.56)	10,421.52
Net cash provided (used) by Operating Activities	<u>(6,880,606.27)</u>	<u>(7,998,381.55)</u>
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES		
General Fund Appropriations	9,480,682.59	9,412,008.45
School & Public Lands	202,607.06	182,134.64
HEFF	407,178.37	225,783.02
Direct Loan Receipts	11,800,188.00	10,740,371.00
Direct Loan Disbursements	(11,800,188.00)	(10,740,371.00)
Other Non-Operating Revenue PELL Grants	2,871,115.66	0.00
Payments for Other Expenditures	(150,895.70)	0.00
Net Cash Flows Provided by Noncapital Financing Activities	<u>12,810,687.98</u>	<u>9,819,926.11</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES		
HEFF	250,989.31	589,374.85
Community Center Payments to Board of Regents	(123,632.88)	(123,728.56)
Proceeds from Capital Debt & Leases	12,549,526.67	0.00
Revenue Bond Discounts and Related Costs	(143,158.42)	0.00
Principal Paid on Indebtedness	(380,006.13)	(883,058.80)
Interest on Indebtedness	(363,502.25)	(36,126.58)
Purchase of Capital Assets	(5,183,883.10)	(1,058,797.55)
South Dakota Building Authority	1,786,088.63	188,438.21
Net Cash Used by Capital and Related Financing Activities	<u>8,392,421.83</u>	<u>(1,323,898.43)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
	<u>55,183.40</u>	<u>53,971.40</u>
Net cash Provided (used)	<u>14,377,686.94</u>	<u>551,617.53</u>
Cash - Beginning of the year	<u>6,376,268.56</u>	<u>5,824,651.03</u>
Cash - End of the year	<u>20,753,955.50</u>	<u>6,376,268.56</u>
RECONCILIATION OF NET OPERATING REVENUES/(EXPENSES) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	(9,346,661.66)	(10,643,777.46)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation, Bad Debt, and Loan Cancellation Expense	1,845,844.77	1,809,100.30
Change in Assets and Liabilities:		
Accounts Receivable	(119,343.73)	103,220.68
Inventory	(800.68)	70,016.66
Accounts Payable	740,355.03	663,058.27
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>(6,880,606.27)</u>	<u>(7,998,381.55)</u>

DAKOTA STATE UNIVERSITY FOUNDATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

With Comparative Totals for June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (257,837)	\$ 4,027,745
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	43,863	44,626
Permanently restricted gifts	(1,021,115)	(1,056,727)
Net decrease (increase) in fair value of investments	824,748	306,982
Realized (gain) on investments	(10,305)	90,391
Realized loss on sale of land	70,000	
Changes in assets and liabilities:		
Receivables	-	261
Beneficial interest in perpetual trust	32,979	32,290
Increase in life insurance contracts	(11,423)	-
(Decrease) in assets held for others	(854,077)	-
Gift annuity agreements	(6,124)	6,489
Net cash (used in) provided by operating activities	(1,189,291)	3,452,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property and equipment	30,000	-
Proceeds from sale and maturities of investment securities	1,870,341	653,776
Purchase of investment securities	(4,306,487)	(3,253,617)
Net cash (used in) investing activities	(2,406,146)	(2,599,841)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(20,000)	-
Permanently restricted gifts	1,021,115	1,056,727
Net cash provided by financing activities	1,001,115	1,056,727
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,594,322)	1,908,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,364,040	1,455,097
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 769,718	\$ 3,364,040
SUPPLEMENTAL SCHEDULE OF NONCASH OPERATING ACTIVITIES		
Operating expenses paid by DSU on behalf of Foundation included in unrestricted revenue and other support	\$ 281,074	\$ 339,640

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 2016 was \$9,480,682.

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, 2016 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	89,820	262,405		352,225
Land Improvements	1,054,404			1,054,404
Infrastructure	3,290,316			3,290,316
Buildings	37,626,183	1,367,595		38,993,778
Furniture, fixtures, and equip.	3,176,302	352,564	(630,319)	2,898,547
Library materials	3,433,215	105,366	(7,726)	3,530,855
Total	48,670,240	2,087,930	(638,045)	50,120,124
Construction in Progress	188,438	3,095,953		3,284,392
Less accumulated depreciation:				
Land Improvements	727,513	29,564		757,078
Infrastructure	909,811	134,260		1,044,072
Buildings	19,647,039	1,283,624		20,930,663
Furniture, fixtures, and equip.	2,179,002	228,426	(594,731)	1,812,697
Library materials	2,998,851	105,854	(7,726)	3,096,979
Total	26,462,216	1,781,728	(602,457)	27,641,488
Capital Assets, net	22,396,462	3,402,155	(35,589)	25,763,028

10. Long-term liability activity for the year ended June 30, 2016 was as follows:

Compensated Absences Payable:

Compensated absences include accrued annual leave, sick leave and compensatory time earned as of June 30, 2016. 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, 2016 are as follows:

	<u>Tablet PC</u>
Balance 6/30/15	499,286.86
Additions	480,865.00
Payments	<u>(510,871.13)</u>
Balance 6/30/16	<u><u>469,280.73</u></u>
Due FY17 principal	301,647.04
Due FY18 principal	<u>167,633.69</u>
Total Principal	<u><u>469,280.73</u></u>
Due FY17 interest	15,118.39
Due FY18 interest	<u>4,167.79</u>
Total Interest	<u><u>19,286.18</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>
2017	470,000.00	736,831.00	1,206,831.00
2018	650,000.00	719,266.00	1,369,266.00
2019	675,000.00	693,566.00	1,368,566.00
2020	700,000.00	664,128.00	1,364,128.00
2021	735,000.00	632,096.00	1,367,096.00
2022-2026	4,040,000.00	2,620,353.00	6,660,353.00
2027-2031	2,975,000.00	1,770,927.00	4,745,927.00
2032-2036	2,835,000.00	1,143,750.00	3,978,750.00
2037-2040	2,820,000.00	360,750.00	3,180,750.00
Total	15,900,000.00	9,341,667.00	25,241,667.00

11. Operating Leases:

The University has entered into the following leases:

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 2017.

The University was leasing two separate parking lots from the Foundation. The University purchased the larger parking lot from the Foundation and will continue to lease the smaller unfished parking lot with lease arrangements yet to be finalized.

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

The schedule of operating leases remaining to be paid as of June 30, 2016 are as follows:

Year	Housing Lease	Parking Lot Lease	Bus Lease	Total
2017	103,680.00	0.00	13,915.00	117,595.00
2018	0.00	0.00	15,180.00	15,180.00
2019	0.00	0.00	15,180.00	15,180.00
2020	0.00	0.00	1,265.00	1,265.00
Total	103,680.00	0.00	45,540.00	149,220.00
Balance 6/30/15	103,680.00	25,000.00	29,645.00	158,325.00
Additions	103,680.00	0.00	45,540.00	149,220.00
Reductions	(103,680.00)	(25,000.00)	(29,645.00)	(158,325.00)
Balance 6/30/16	103,680.00	0.00	45,540.00	149,220.00

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	\$ 11,296,336	\$ 123,410	\$ 992,723	\$ 909,556	\$ 74,074			\$ 13,396,099
Research	\$ 412,709	\$ 154,066	\$ 75,651	\$ 254,004	\$ 705,390			\$ 1,601,820
Public Service	\$ 1,205,259	\$ 34,609	\$ 404,053	\$ 127,638	\$ 77,543			\$ 1,849,102
Academic Support	\$ 1,828,231	\$ 79,036	\$ 497,235	\$ 407,300				\$ 2,811,801
Student Services	\$ 2,575,211	\$ 253,808	\$ 731,473	\$ 338,779	\$ 45,980			\$ 3,945,251
Institutional Support	\$ 2,489,032	\$ 47,167	\$ 938,705	\$ 136,360	\$ 10,000			\$ 3,621,263
O & M of Plant	\$ 1,071,157	\$ 736	\$ 886,275	\$ 375,114			\$ 1,781,728	\$ 4,115,010
Scholarships & Fellow ships	\$ 224,626	\$ 1,033	\$ 1	\$ 4,357	\$ 1,346,959	\$ 64,116		\$ 1,641,092
Auxiliary Enterprise	\$ 652,616	\$ 12,456	\$ 2,405,873	\$ 699,798				\$ 3,770,743
TOTAL	\$ 21,755,177	\$ 706,320	\$ 6,931,989	\$ 3,252,904	\$ 2,259,946	\$ 64,116	\$ 1,781,728	\$ 36,752,180

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016

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, 2016 and 2015, the value of contributed services and facilities meeting the requirements for recognition in the financial statements was \$281,074 and \$339,640, 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, 2016

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, 2016

2. INVESTMENTS

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

	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

	2015		
	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
	\$ 10,717,149	\$ 1,896,847	\$12,613,996

The Foundation has investments in two separate limited liability companies of \$132,252 and \$153,985 at June 30, 2016 and 2015, 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 \$445,770 and \$1,364,276 as of June 30, 2016 and 2015, respectively, is recorded as a liability in the accompanying statements of financial position. One of the funds accepted for deposit was dissolved and transferred to the Foundation in the amount of \$841,108.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2016

3. FAIR VALUE MEASUREMENT, continued

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015 are as follows:

June 30, 2016		
Investment securities	\$13,607,855	
Alternative investments	231,057	
		\$13,838,912
June 30, 2015		
Investment securities	\$12,364,015	
Alternative investments	249,981	
		\$12,613,996

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, 2016			
Investment securities	\$ 13,607,855	\$ -	\$ -
Alternative investments	-	-	231,057
	\$ 13,607,855	\$ -	\$ 231,057
June 30, 2015			
Investment securities	\$ 12,364,015	\$ -	\$ -
Alternative investments	-	-	249,981
	\$ 12,364,015	\$ -	\$ 249,981

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2016

3. FAIR VALUE MEASUREMENT, continued

Following is a reconciliation of activity for the year ended June 30, 2016 and 2015, for assets measured at fair value based upon significant unobservable (non-market) information:

	<u>Alternative Investments</u>
June 30, 2016	
Balance, beginning of year	\$ 249,981
Realized and unrealized gains (losses) including earnings	<u>(18,924)</u>
	<u>\$ 231,057</u>
June 30, 2015	
Balance, beginning of year	\$ 210,832
Realized and unrealized gains (losses) including earnings	<u>39,149</u>
	<u>\$ 249,981</u>

4. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015, consists of the following:

	<u>Estimated Useful Life</u>	<u>2016</u>	<u>2015</u>
Land improvements	15 Years	\$ -	\$ 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>(417,758)</u>	<u>(457,171)</u>
		<u>\$ 935,419</u>	<u>\$ 978,518</u>

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2016

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, 2016 and 2015 were \$310,621 and \$331,495, 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.

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 \$106,497 and \$105,593 as of June 30, 2016 and 2015, respectively. The estimated present value of future payments to be made under these agreements, discounted at rates from 2.0% to 4.0%, totaled \$57,823 and \$51,699 as of June 30, 2016 and 2015, respectively.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2016

7. LONG-TERM DEBT

Long-term debt as of June 30, 2016 and 2015, consists of the following:

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

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 2016 are not included as liabilities or expenses in the accompanying 2016 financial statements. The amount of scholarships to be awarded is approximately \$1,052,674 as of June 30, 2016.

OPERATING LEASES

The Foundation has a parking lot lease agreement with DSU which required DSU to pay the Foundation \$25,000 annually for 2016. 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 \$17,675 and \$14,390 for the years ended June 30, 2016 and 2015, 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 \$612,040).

The Foundation leases advertising space on a sign. Lease income received from this lease was \$166,550 and \$152,550 for the years ended June 30, 2016 and 2015, respectively.

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued
JUNE 30, 2016

9. NET ASSETS

	2016	2015
Unrestricted net assets	\$ 1,257,895	\$ 1,599,197
Temporarily restricted net assets	4,739,300	5,643,971
Permanently restricted net assets	10,614,937	9,626,801
Total net assets	\$16,612,132	\$16,869,969

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:

	2016	2015
DSU scholarships	\$ (71,591)	\$ (240,666)
DSU departmental expenses	(393,158)	(300,918)
DSU buildings and equipment	5,204,049	6,185,555
Total	\$ 4,739,300	\$5,643,971

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:

	2016	2015
DSU scholarships	\$ 9,998,727	\$9,010,591
DSU departmental expenses	516,210	516,210
DSU buildings and equipment	100,000	100,000
Total	\$ 10,614,937	\$9,626,801

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2016

10. 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, 2016

10. ENDOWMENTS, continued

The composition of Endowment Net Assets by fund type as of June 30, 2016 and 2015, is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2016			
Donor-restricted endowment funds	\$ (816,960)	\$10,303,694	\$ 9,486,734
Board-designated endowment funds	<u>(4,555)</u>	<u>150,000</u>	<u>145,445</u>
	<u>\$ (821,515)</u>	<u>\$10,453,694</u>	<u>\$ 9,632,179</u>
June 30, 2015			
Donor-restricted endowment funds	\$ (357,842)	\$ 9,315,558	\$ 8,957,716
Board-designated endowment funds	<u>(1,034)</u>	<u>150,000</u>	<u>148,966</u>
	<u>\$ (358,876)</u>	<u>\$ 9,465,558</u>	<u>\$ 9,106,682</u>

Changes in Endowment Net Assets for the year ending June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$ (358,876)	\$ 9,465,558	\$ 9,106,682
Investment return:			
Net depreciation (realized and unrealized)	(462,639)		(462,639)
Change in split -interests	-	(32,979)	(32,979)
Contributions	-	1,021,115	1,021,115
	<u>\$ (821,515)</u>	<u>\$10,453,694</u>	<u>\$ 9,632,179</u>

DAKOTA STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – continued JUNE 30, 2016

10. 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 \$800,000 and \$358,876 as of June 30, 2016 and 2015. 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.

11. SUBSEQUENT EVENTS

Events occurring after June 30, 2016 were evaluated by management on October 1, 2016, 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.