

2016

Financial Report

South Dakota State University & Attached Agencies
Brookings, SD

Financial Report
of
South Dakota State University
Brookings, South Dakota,
Its Colleges and Agencies

University Proper
College of Agriculture & Biological Sciences
College of Arts & Sciences
College of Education & Human Sciences
College of Nursing
College of Pharmacy
Graduate School
Jerome J. Lohr College of Engineering
University College
Van D. & Barbara B. Fishback Honors College

SDSU Extension

Agricultural Experiment Station

Animal Disease Research and Diagnostic Laboratory



For the year ended June 30, 2016



South Dakota
State University

Office of the President

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SDSU
Brookings, SD 57007-2298
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January 13, 2017

Regent Randy Schaefer, President
South Dakota Board of Regents
730 South Washington Avenue
Madison, SD 57042

Dear President Schaefer:

I am pleased to forward the Financial Report for South Dakota State University, covering the fiscal year 2015-2016. This report covers all phases of the financial transactions of the University for the twelve-month period ending June 30, 2016.

Copies of the report will be sent to Michael G. Rush, executive director of the South Dakota Board of Regents.

Sincerely,

Barry H. Dunn, PhD.
President

Enclosure

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

BOARD OF REGENTS

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BOB SUTTON, Vice President, Pierre
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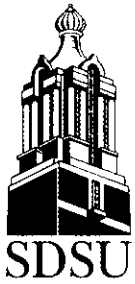
MICHAEL G. RUSH, Executive Director & CEO
MONTE KRAMER, System Vice President of Finance & Administration

THE PRESIDENT OF THE UNIVERSITY

BARRY H. DUNN

Wesley G. Tschetter, Vice President of Finance & Business/CFO
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Karen E. Jastram, Director of Accounting Services
Derek Peterson, Director-Business & Auxiliary Operations
Jacqueline C. Nelson, Assistant VP of Finance & Business
Michael Holbeck, Director of Finance & Budget
James D. Rogness, Senior Associate Controller
Mark D. Pust, Senior Accountant
Doris Scanlan, Senior Accountant
Cathy M. Lynn, Senior Accountant
Vicki L. Soren, Purchasing Agent
Janet M. Peterson, Director of Payment Systems
Arlys E. Janssen, Institutional Payroll Supervisor
Ross Pirlet, Student Accounts Specialist
Leo Gannon, Bursar

* * * * *



South Dakota
State University

Department of Finance and Business

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South Dakota State University
Brookings, SD 57007
Phone: 605-688-4920
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January 13, 2017

Dr. Barry Dunn
President
South Dakota State University

Dear Dr. Dunn:

The Annual Financial Report of South Dakota State University for the year ending June 30, 2016 is complete and submitted in the attached exhibits.

The reports of South Dakota State University have been presented in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These reports provide a comprehensive record of the University's financial activities as a whole.

The South Dakota State University Foundation is a legally separate, tax-exempt entity that acts primarily as a fund raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's financial statements, audited by an independent certified public accountant, are included in this report as it has been determined to be a component unit of the University based on the provisions 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 South Dakota State University for the fiscal year ending June 30, 2016.

Sincerely,

Wesley Tschetter
Vice President Finance and Business/CFO

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

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SOUTH DAKOTA STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of South 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 management.

Based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, it has been determined that the South Dakota State University Foundation is a component unit of the University. In accordance with GASB 39, the SDSU Foundation's financial statements are presented behind the statements of the University. Independent auditors engaged by the Foundation's Board of Directors audit the Foundation's financial information. The University has no control or management responsibility over the Foundation funds.

Reporting Entity

South 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 South Dakota State University are audited as part of the audit 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* as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and by GASB No. 65 *Items Previously Reported as Assets and Liabilities*. The accompanying financial statements provide a comprehensive view of the financial operations of the University as a whole.

The statements prescribed by GASB Statement No. 35 as amended by GASB Statement No. 63 and GASB Statement No. 65 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, whereby 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 presents information on all of the University's assets, deferred outflows of resources, liabilities and deferred inflows with the difference between them being reported as net position which is one way of measuring the University's financial position. Changes in net position are an indicator of the improvement or erosion of the University's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities serving the students.

The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are reported as either operating or non-operating. In accordance with the GASB Statement 35 reporting model requirements, state and federal appropriations are reported as non-operating revenues, resulting in the reporting of a significant net operating loss. The financial statements also reflect 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. Transactions are classified as operating, non-capital, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations as they mature.

Financial Highlights

The University's financial position improved during the fiscal year ended June 30, 2016 as compared to the previous fiscal year as evidenced by:

- The University's total assets increased over the prior year by \$41.6 million. The most significant change was an increase to Construction in Progress of \$57.6 million primarily from additions for the new football stadium, the Campus North Tunnel Extension, the renovation of Brown Hall, the Swine Unit construction and renovation, and the Cow/Calf Unit. Cash balances increased by \$4.8 million.

Fund type	Change in cash balance
Unrestricted Non-Appropriated funds	\$6.3 million
Renewal and Replacement funds	\$2.0 million
Restricted Non-Appropriated funds	\$1.0 million
Retirement of Indebtedness funds	\$0.9 million
Unexpended Plant funds	(\$4.9 million)
Restricted Appropriated funds	(\$0.5 million)

Another significant change was the decrease in Due From Component Units of \$21.4 million primarily due to reimbursement from the South Dakota Building Authority for a financing agreement for the construction of the new football stadium. Several buildings

were disposed of, including the Alvida Myre Sorensen Center, Coughlin Alumni Stadium, Coughlin Concession & Lockers and the Tompkins Alumni Center. This resulted in a decrease in Buildings and Building Improvements of \$5.5 million.

- The University's largest asset is its investment in physical plant which represents \$456.4 million at June 30, 2016. In addition, the University had \$28.0 million in Equipment & Other Property and \$8.8 million in Museum & Art Collections.
- The University's liabilities decreased by \$4.0 million. The most significant change was a decrease to Bonds Payable of \$5.2 million primarily due to FY16 bond payments. Accounts Payable decreased by \$1.7 million primarily due to the payment of construction costs that were outstanding at the end of FY15. Another significant change was an increase in Unearned Revenue of \$1.2 million primarily from advance ticket sales for the Dana J. Dykhouse Stadium. Obligations Under Capital Leases increased \$.8 million primarily from a new lease purchase for the Binnewies Land.
- The University's largest liability is its revenue bonds payable of \$111.4 million, net of premiums and discounts.
- The University's net position increased by \$45.6 million to \$396.1 million, of which \$345.7 is net investment in capital assets and \$9.9 million is restricted. The majority of the remaining \$40.5 million of unrestricted net position is designated for future acquisition or maintenance and repair of plant facilities.
- The University's current assets of \$86.9 million were sufficient to cover current liabilities of \$31.7 million (current ratio of 2.74).

South Dakota State University
Condensed Statement of Net Position
For the Year Ended

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
ASSETS		
Current Assets	\$ 86,916,338.24	\$ 94,192,297.90
Non-Current Assets	<u>503,826,363.02</u>	<u>454,986,406.97</u>
Total Assets	<u>\$ 590,742,701.26</u>	<u>\$ 549,178,704.87</u>
DEFERRED OUTFLOWS OF RESOURCES		
Def Outflow on Debt Refinancing	<u>\$ 118,860.83</u>	<u>\$ 119,257.05</u>
LIABILITIES		
Current Liabilities	\$ 31,668,139.98	\$ 30,184,696.46
Non-Current Liabilities	<u>163,136,878.84</u>	<u>168,665,609.37</u>
Total Liabilities	<u>\$ 194,805,018.82</u>	<u>\$ 198,850,305.83</u>
NET POSITION		
Net Investment in Capital Assets	\$ 345,724,504.09	\$ 303,673,746.20
Restricted	9,855,843.33	8,547,899.56
Unrestricted	<u>40,476,195.85</u>	<u>38,226,010.33</u>
Total Net Position	<u>\$ 396,056,543.27</u>	<u>\$ 350,447,656.09</u>

- Primary sources of operating revenues for the University are student tuition and fees, grants and contracts, general sales and service revenue, and auxiliary enterprise activities.
- Operating revenues increased by \$11.2 million compared to the prior year. Operating revenues saw significant increases to Tuition and Fees of \$4.8 million, General Sales & Services of \$3.4 million, Federal Grants & Contracts of \$1.9 million, State Grants & Contracts of \$1.9 million and Auxiliary Enterprises of \$.6 million. Operating

revenues saw a significant decrease to Private Grants & Contracts of \$1.2 million and a small decrease to Other Revenues and Additions of \$.2 million.

- Tuition & Fee revenue increased by \$4.8 million. State support tuition rates increased by 4.3% from the previous year while state support credit hours decreased by 1.7% and Student Financial Assistance (student scholarships net of refunds) decreased by 2.1% which resulted in an increase in net state support tuition of \$1.0 million. Self support rates increased roughly by 3.9% with an increase in self support credit hours of 2.6% while Student Financial Assistance (student scholarships net of refunds) increased by 1.67% resulting in an increase in net self support tuition of \$1.0 million. Increases in Student Fee rates from the previous year varied from fee to fee. The increases in the Student Fee rates along with an increase of 1.5% in Student Financial Assistance (student scholarships net of refunds) resulted in an increase of net Student Fee revenue of \$2.8 million. Significant changes to Student Fees included a \$1.2 million increase in General Activity Fee revenue, a \$1.2 million increase to Special Discipline Fees and a \$.5 million increase to Student Charges.
- General Sales & Services increased by \$3.4 million over the previous year. A portion of that increase was from increased revenues generated by the new Dana J. Dykhouse Stadium.
- Auxiliary Enterprise Revenue increased by \$.6 million from an increase in Res Life revenues of \$.3 million, a \$.2 million increase in Bookstore revenue and a \$.1 million increase in Food Service revenue.
- Federal Grants & Contracts increased by \$1.9 million. Significant changes included a \$.8 million increase to federal grants for Financial Aid Scholarships & Grants, increases to federal National Institute of Food and Agriculture Grants, National Aeronautics and Space Administration Grants, National Science Foundation Grants and Department of Health Grants. Other significant changes included a \$1.1 million decrease to U.S. Department of Agriculture Grants.
- State Grants & Contracts increased by \$1.9 million primarily from an increase in state grants for Government Office of Economic Development grants of \$2.0 million offset by minor changes to other state grants and contracts.
- Private Grants & Contracts decreased by \$1.2 million. Significant changes include a \$1.4 million decrease in research grants, and a \$.5 million decrease in Financial Aid Scholarships, which were offset by increases to various private grants & contracts.
- Other Revenue & Additions decreased slightly by \$.2 million over the previous year.
- Overall Operating Expenses increased by just \$8.0 million (2.9%) compared to the prior year. A \$3.7 million reduction in Health Insurance offset wage increases to hold total personal service increases for the year at \$2.2 million. Contractual Services increased \$2.3 million (5.7% increase) from the prior year. Other changes include an

increase to Grants & Subsidies of \$1.8 million, an increase to Supplies & Materials of \$1.1 million and an increase of \$.6 million to Travel.

- The operating loss totaled \$73.0 million which was funded primarily by State General Fund Appropriations of \$66.3 million and Federal Appropriations of \$7.2 million. In comparison, the FY15 operating loss was \$76.2 million.
- State General Fund Appropriations were the most significant non-operating revenue at \$66.3 million which was a \$1.8 million increase from FY15.
- The University received \$7.2 million in Federal Appropriations for FY16 which was an increase of \$1.2 million from the previous year. Significant changes included an increase of \$.5 million for Hatch funding, an increase of \$.5 million for Multi-State funding and an increase of \$.2 million for Smith Lever funding.
- The University received \$9.7 million in PELL Grant revenue for FY16 which was a decrease of \$1.3 million from the previous year. In FY16, the FY15 financial statements were restated to classify PELL Grant revenue as Non-Operating Revenue. In the FY15 financial statements, PELL Grant revenue had been reported as part of Federal Grants & Contracts Operating Revenue.
- The University received revenue from the Higher Education Facilities Fund of \$6.8 million consisting of \$5.6 million in M&R HEFF and \$1.2 million in General Funds HEFF. HEFF revenue is reported on the University's financial statement as \$1.4 million in Non-Operating HEFF, \$3.9 million in Capital HEFF and \$1.5 million in Capital Appropriations. HEFF revenue was primarily used for the Campus North Tunnel Extension, for the construction of the Swine Teaching & Research Facility, for the HPER Center Roof Replacement, for the Northern Plains Biostress Chiller Replacement and for various other smaller construction projects.
- The University received \$21.8 million in Capital Grants & Contracts for FY16. The most significant source was \$15.8 million received from the SDSU Foundation for the Dykhouse Stadium, Swine Unit, Cow/Calf Unit, Sanford Athletic Complex, and the Architecture, Math & Engineering building and other smaller building and renovation projects around campus. In addition, the University received \$2.8 million from various federal grants & contracts, \$1.7 million for gifts of Capital Equipment, \$1.1 million from the SDSU Foundation for the Binnewies Land and \$.3 million for Construction in Progress Gifts in Kind and \$.1 million in gifts to the SD Art Museum. For FY16, an additional \$10.1 million was received in bond proceeds from the SD Building Authority which was used for the North Tunnel Extension & Supplemental Plant, for the Stadium Project, for the Cow/Calf Unit, and for the Central Heating Plant Boiler Replacement.

South Dakota State University
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended

	June 30, 2016	Restated June 30, 2015
Total Operating Revenues	\$ 209,794,084.24	\$ 198,612,198.96
Total Operating Expenses	282,816,943.11	274,786,277.69
Operating Loss	\$ (73,022,858.87)	\$ (76,174,078.73)
Net Non-Operating Revenues	79,441,920.98	77,779,274.60
Other Revenues	37,854,429.93	22,288,902.24
Total Increase in Net Position	\$ 44,273,492.04	\$ 23,894,098.11
Net Position, Beginning of Year	350,447,656.09	326,465,487.99
Prior Period Adjustments	1,335,395.14	88,069.99
Net Position, End of Year	\$ 396,056,543.27	\$ 350,447,656.09

- Major sources of operating cash included student tuition, fees and auxiliaries of \$118.4 million, grants and contracts of \$57.3 million and general sales & services of \$31.4 million. The largest use of operating cash was payments to employees of \$162.8 million.
- The most significant source of non-capital financial activities cash was State General Fund appropriations of \$66.3 million.
- The most significant sources of capital related financing activities cash were SD Building Authority Bond Proceeds of \$32.1 million for capital purposes, Capital Grants & Contracts of \$18.1 million and \$3.9 million received from the Higher Education Facilities fund for capital projects. The most significant uses of capital related financing activities cash were the Purchase of Capital Assets of \$72.6 million which was predominately for construction expenditures for buildings & improvements, and debt service payments of \$10.9 million primarily for various revenue bond issues for the University's Auxiliary System.

**South Dakota State University
Condensed Statement of Cash Flows
For the Year Ended**

	<u>June 30, 2016</u>	<u>Restated June 30, 2015</u>
Cash Provided (Used) by:		
Operating Activities	\$ (53,990,187.97)	\$ (55,414,727.48)
Non-Capital Financial Activities	84,656,430.12	87,294,173.10
Capital Related Financing Activities	(26,586,376.60)	(21,022,211.19)
Investing Activities	<u>700,456.31</u>	<u>347,705.35</u>
Net Increase in Cash	4,780,321.86	11,204,939.78
Cash, Beginning of Year	<u>53,804,013.85</u>	<u>42,599,074.07</u>
Cash, End of Year	<u>\$ 58,584,335.71</u>	<u>\$ 53,804,013.85</u>

Outlook for FY17 and Beyond

The ability of the University to fulfill its education mission and execute its strategic plans is positively influenced by stable enrollment. Fall 2016 total full-time equivalent enrollment decreased slightly from 10,142 in Fall 2015 to 10,130 in Fall 2016. Fall 2016 headcount enrollment increased slightly from 12,589 in Fall 2015 to 12,613 in Fall 2016. It is projected that enrollment will continue to remain stable for FY18.

Reliance on State support remains an important non-operating revenue source for the University. For FY17, it is expected that the State General Fund appropriations will be impacted by state and national economic pressures impacting revenues generated for the State General Fund. Each year the University continues to be confronted with inflationary increases in compensation and other operating expenses.

Additional challenges include maintenance and repair of plant facilities and major renovations to facilities. Maintenance and repair of facilities is essential to provide safe, effective and current education and service to the State. Major projects that are in the planning process or in progress include the construction of a new football stadium, campus tunnel extension, construction of a swine unit, Brown Hall renovation & addition, construction of a cow/calf unit, construction of a new headhouse/greenhouse, Performing Arts Center Phase 2 addition, SJAC Infrastructure, Animal Disease Research & Diagnostic Laboratory addition and renovation, Meadows North & Meadows South window replacement, Visual Arts facility, Plant Science research support facility,

construction of a Residential Life maintenance facility, Student Wellness Center addition, McFadden Northern Plains Biostress HVAC repairs, Physical Education Center Frost Arena LED lighting and Crothers Engineering Hall remodel.

The University has a 10 year Capital Plan which includes the Biosciences & Engineering Research Laboratory, Harding Hall renovations & addition, SD Art Museum addition & renovations, Central Heating Plant boiler replacement & improvements, Intramural Building renovations, Campus Apartments - Upperclassmen Housing, University Student Union Multicultural/Student Leadership Center, University Student Union Volstorff Ballroom Upgrade, Equine Teaching Laboratory, Utility repairs & modernization, Precision Ag Classroom Laboratory Building, Native American Education & Multicultural Facility, Stanley J. Marshall Center Practice Facility addition & renovations, Wecota Annex renovations, Lincoln Music Hall renovations, Baseball & Softball Facility Improvements, Soccer Facility, Golf Practice Facility, Tennis Facility and Natatorium Facility.

South Dakota State University maintains a positive outlook for FY17 and beyond. The University continues to be well positioned for the future, both academically and financially in its mission of education, research and service.

SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Current Year</u>	<u>Prior Year</u>
ASSETS:		
Current Assets:		
Cash on Deposit - State Treasurer	\$ 48,633,666.29	\$ 40,734,021.75
Cash & Cash Equivalents	9,950,669.42	5,748,310.46
Accounts Receivable - Student	5,616,813.13	4,536,304.22
Accounts Receivable - Dept. Sales	3,753,306.33	3,475,662.33
Notes Receivable (Net of Allowance of \$99,734.24 2016 and \$64,535.46 2015)	2,139,931.22	2,049,090.98
Interest Receivable	376,308.11	366,752.63
Prepaid Expenses	1,767,239.28	1,039,939.21
Inventories	5,221,665.01	6,064,170.81
Due From Federal Sources	7,313,528.09	6,213,773.35
Due From Primary Government	572,291.98	959,553.35
Due From Other Component Units	1,556,909.16	22,989,515.48
Unamortized Cost of Issuance	14,010.22	15,203.33
Total Current Assets	\$ 86,916,338.24	\$ 94,192,297.90
Non-Current Assets:		
Restricted Cash on Deposit - State Treasurer	\$ -	\$ 7,321,681.64
Notes Receivable (Net of Allowance of \$435,704.76 2016 and \$300,464.54 2015)	9,565,561.65	9,561,661.53
UnRestricted Long Term Investments	283,056.67	275,585.24
Unamortized Cost of Issuance	238,173.84	268,259.91
Land	12,650,728.90	10,514,049.90
Construction in Progress	93,601,929.55	36,024,618.28
Buildings & Bldg Impr (Net of Accum Depr \$153,553,981.49 2016 and \$143,142,941.09 2015)	326,705,046.28	332,246,183.75
Land Improvements (Net of Accum Depr of \$7,454,789.00 2016 and \$6,829,841.00 2015)	7,615,087.51	7,765,816.48
Infrastructure (Net of Accum Depr of \$6,808,693.87 2016 and \$6,216,513.87 2015)	15,807,296.33	15,665,808.39
Equipment & Other Property (Net of Accum Depr \$80,994,047.53 2016; \$78,174,895.00 2015)	28,000,951.65	26,146,053.40
Museum and Art Collections	8,830,215.50	8,753,715.50
Intangible Assets (Net of Accum Amort \$136,412.57 2016 and \$85,741.15 2015)	465,815.14	335,472.95
Other Assets	62,500.00	107,500.00
Total Non-Current Assets	\$ 503,826,363.02	\$ 454,986,406.97
Deferred Outflows of Resources:		
Deferred Outflow on Debt Refunding	\$ 118,860.83	\$ 119,257.05
Total Deferred Outflows of Resources	\$ 118,860.83	\$ 119,257.05
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 590,861,562.09	\$ 549,297,961.92

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Current Year	Prior Year
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 9,414,097.06	\$ 11,088,473.70
Accrued Wages & Benefits	3,951,631.82	3,840,616.93
Accrued Interest Payable	1,312,031.94	1,361,772.13
Due To Primary Government	274,728.39	441,818.59
Due To Other Component Units	685,093.60	237,599.14
Student Deposits	417,892.10	467,078.93
Compensated Absences Payable	5,217,598.56	4,757,220.75
Notes Payable	165,000.00	165,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	5,469,542.88	5,221,727.34
Obligations Under Capital Leases	916,574.22	48,555.02
Unearned Revenue	3,374,392.96	2,179,727.53
Agency Funds - Funds Held for Others	469,556.45	375,106.40
Total Current Liabilities	\$ 31,668,139.98	\$ 30,184,696.46
Non-Current Liabilities:		
Compensated Absences Payable	\$ 10,521,043.92	\$ 10,585,455.48
Notes Payable	-	165,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	105,911,408.14	111,380,421.93
Obligations Under Capital Leases	35,608,902.36	35,690,919.54
Federal Capital Contribution - Student Loans	11,095,524.42	10,843,812.42
Total Non-Current Liabilities	\$ 163,136,878.84	\$ 168,665,609.37
TOTAL LIABILITIES	\$ 194,805,018.82	\$198,850,305.83
NET POSITION:		
Net Investment in Capital Assets	\$ 345,724,504.09	\$ 303,673,746.20
Restricted Non-Expendable:		
Loans	2,051,898.58	2,278,054.22
Restricted Expendable:		
Scholarships and fellowships	197,974.23	184,006.05
Research	2,732,610.54	1,630,844.31
Debt Service	-	3,847.23
Renewals & Replacements	4,873,359.98	4,432,566.38
Other	-	18,581.37
Unrestricted	40,476,195.85	38,226,010.33
TOTAL NET POSITION	\$ 396,056,543.27	\$350,447,656.09
TOTAL LIABILITIES & NET POSITION	\$ 590,861,562.09	\$549,297,961.92

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

South Dakota State University Foundation
Consolidated Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and Cash Equivalents	\$ 9,232,521	\$ 8,867,482
Investments (Note 2)	133,783,982	133,046,930
Receivables		
Promises to give, net of allowance and discount (Note 3)	24,173,646	26,658,567
Trusts held by others	1,317,906	2,342,688
Notes, contract, and other receivables (Note 4)	2,567,775	2,764,573
Property, Net of Accumulated Depreciation	5,673,297	5,813,197
Property Held for Investment	4,679,670	5,087,421
Other Assets		
Prepaid expenses, inventory, and other assets	391,772	1,717,495
Cash surrender value of life insurance	517,593	474,109
Life estates	4,151,655	4,251,655
Beneficial interest in perpetual trust	919,052	984,541
	\$ 187,408,869	\$ 192,008,658
Liabilities		
Accounts Payable, Accrued Expenses, and Other Liabilities	\$ 745,995	\$ 1,013,341
Due to SDSU - Scholarships	1,777,596	1,596,323
Investments Held for Others	153,312	153,432
Gift Annuities, Life Income Agreements, and Life Estates	8,904,925	9,921,761
Notes Payable (Note 5)	6,534,285	9,975,192
Total liabilities	18,116,113	22,660,049
Net Assets (Deficit)		
Unrestricted (Note 6)	(14,632,873)	(10,497,571)
Temporarily Restricted (Note 7)	56,991,662	55,470,371
Permanently Restricted (Note 7)	126,933,967	124,375,809
Total net assets	169,292,756	169,348,609
	\$ 187,408,869	\$ 192,008,658

SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Current Year	Prior Year Restated
OPERATING REVENUES:		
Tuition:		
State-Support Tuition	\$ 35,726,073.10	\$ 34,814,260.77
Self-Support Tuition	17,681,630.89	16,597,794.35
	\$ 53,407,703.99	\$ 51,412,055.12
Fees:		
University Support Fee	\$ 10,429,175.47	\$ 10,610,796.07
Salary Competitiveness Fee	7,584,488.40	7,794,034.40
General Activity Fee	7,987,967.94	6,781,118.82
Special Discipline Fees	13,238,362.23	10,729,957.57
Lab Fees	4,122.19	1,300,169.81
Vehicle Registration Fees	930,966.10	869,824.36
Delivery Fees	2,209,521.11	2,181,271.69
Technology Fees	3,356,142.95	3,163,877.34
Other Fees	228,475.06	173,603.92
Student Charges	2,258,302.75	1,734,503.55
	\$ 48,227,524.20	\$ 45,339,157.53
Total Tuition and Fees	\$ 101,635,228.19	\$ 96,751,212.65
Less Student Financial Assistance	(12,269,185.83)	(12,240,398.55)
Total Tuition and Fees Net of Student Financial Assistance	\$ 89,366,042.36	\$ 84,510,814.10
Auxiliaries (Net of Student Financial Assistance of \$4,487,418.69 2016 and \$4,652,229.86 2015)	32,680,951.16	32,115,494.28
General Sales & Services	31,002,510.61	27,605,095.16
Federal Grants & Contracts	35,329,048.40	33,464,572.50
State Grants & Contracts	7,430,653.79	5,538,613.30
Private Grants & Contracts	13,721,041.72	14,879,204.80
Student Loan Interest	208,030.98	201,896.74
Other Revenues & Additions	55,805.22	296,508.08
	\$ 209,794,084.24	\$ 198,612,198.96
TOTAL OPERATING REVENUES	\$ 209,794,084.24	\$ 198,612,198.96

SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Current Year	Prior Year Restated
OPERATING EXPENSES:		
Personal Services (Salaries & Benefits)	\$ 163,267,767.39	\$ 161,083,385.34
Travel	8,607,837.87	8,039,375.66
Contractual Services	43,356,350.53	41,023,130.29
Supplies & Materials	27,677,818.67	26,537,070.77
Grants & Subsidies	19,644,781.38	17,786,175.46
Interest	6,166.87	1,161.92
Loan Cancellation Expense	331,166.30	319,798.16
Bad Debts	188,295.00	15,926.00
Depreciation	19,613,611.18	19,849,753.04
Amortization of Intangibles	50,671.42	50,671.42
Other Operating Expense	72,476.50	79,829.63
	\$ 282,816,943.11	\$ 274,786,277.69
TOTAL OPERATING EXPENSES		
	\$ (73,022,858.87)	\$ (76,174,078.73)
OPERATING LOSS		
NON-OPERATING REVENUES (EXPENSES):		
General Fund Appropriations	\$ 66,298,703.34	\$ 64,508,403.00
School & Public Lands	705,977.10	612,290.81
Federal Fund Appropriations	7,192,377.84	5,971,223.77
Higher Education Facilities Fund	1,385,170.20	711,621.31
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Investment Income	710,011.79	366,908.80
Other Non-Operating Revenue PELL Grants	9,663,418.65	10,994,139.17
Other Non-Operating Revenue & Additions	26,307.83	17,202.84
Interest Expense related to Capital Assets	(5,484,541.63)	(5,330,262.88)
Loss on Disposal of Capital Assets	(1,280,010.02)	(314,602.22)
Other Non-Operating Expenses	-	(7,650.00)
Bond Issuance Expense	(25,494.12)	-
	\$ 79,441,920.98	\$ 77,779,274.60
NET NON-OPERATING REVENUES		
	\$ 79,441,920.98	\$ 77,779,274.60
INCOME BEFORE OTHER REVENUES, EXPENSES & OTHER CHANGES	6,419,062.11	\$ 1,605,195.87
Capital Grants & Contracts	21,835,276.19	15,558,017.36
SD Building Authority Bond Proceeds	10,050,427.98	3,413,420.75
BAB Subsidy	538,646.70	551,057.02
Capital Appropriations	1,485,718.42	592,067.95
Higher Education Facilities Fund	3,944,360.64	2,174,339.16
	6,419,062.11	\$ 1,605,195.87
NET INCREASE IN NET POSITION	\$ 44,273,492.04	\$ 23,894,098.11
NET POSITION, BEGINNING OF YEAR	350,447,656.09	326,465,487.99
Prior Period Adjustments	1,335,395.14	88,069.99
	351,783,051.23	326,553,557.98
NET POSITION, END OF YEAR	\$ 396,056,543.27	\$ 350,447,656.09

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Gifts	\$ 172,507	\$ 21,108,305	\$ 3,266,820	\$ 24,547,632
Investment income	216,233	2,337,417	211,411	2,765,061
Net realized and unrealized gains and losses	(13,466)	(3,863,934)	(158,096)	(4,035,496)
Change in split interest agreements	-	34,509	(460,958)	(426,449)
Other revenue				
Development services	1,000,000	-	-	1,000,000
Subsidiaries operating	462,139	2,667,887	-	3,130,026
Other	30,124	264,187	26,484	320,795
	<u>1,867,537</u>	<u>22,548,371</u>	<u>2,885,661</u>	<u>27,301,569</u>
Net assets released from restrictions (Note 7)	<u>25,038,752</u>	<u>(24,861,642)</u>	<u>(177,110)</u>	<u>-</u>
Total revenue, support, and gains	<u>26,906,289</u>	<u>(2,313,271)</u>	<u>2,708,551</u>	<u>27,301,569</u>
Expenses				
Program Services				
SDSU scholarships	3,684,838	-	-	3,684,838
SDSU operational and program support	6,379,190	-	-	6,379,190
SDSU capital projects	7,617,849	-	-	7,617,849
Grants to others	1,126,633	-	-	1,126,633
Subsidiaries operating	3,181,834	-	-	3,181,834
Total program services	<u>21,990,344</u>	<u>-</u>	<u>-</u>	<u>21,990,344</u>
Support Services				
Administrative and general expenses	2,835,771	-	-	2,835,771
Fundraising expenses	2,531,307	-	-	2,531,307
Total support services	<u>5,367,078</u>	<u>-</u>	<u>-</u>	<u>5,367,078</u>
Total expenses	<u>27,357,422</u>	<u>-</u>	<u>-</u>	<u>27,357,422</u>
Interfund Transfers	<u>(3,684,169)</u>	<u>3,834,562</u>	<u>(150,393)</u>	<u>-</u>
Change in Net Assets	<u>\$ (4,135,302)</u>	<u>\$ 1,521,291</u>	<u>\$ 2,558,158</u>	<u>\$ (55,853)</u>

South Dakota State University Foundation
Consolidated Statements of Activities
Years Ended December 31, 2015 and 2014

2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 212,545	\$ 32,372,602	\$ 2,904,810	\$ 35,489,957
280,995	2,588,064	206,997	3,076,056
(4,762)	736,457	(48,607)	683,088
(200)	326,617	736,587	1,063,004
780,000	-	-	780,000
358,198	2,288,218	-	2,646,416
36,329	276,683	14,896	327,908
<u>1,663,105</u>	<u>38,588,641</u>	<u>3,814,683</u>	<u>44,066,429</u>
<u>41,687,046</u>	<u>(41,526,212)</u>	<u>(160,834)</u>	<u>-</u>
<u>43,350,151</u>	<u>(2,937,571)</u>	<u>3,653,849</u>	<u>44,066,429</u>
3,426,426	-	-	3,426,426
5,361,742	-	-	5,361,742
26,058,404	-	-	26,058,404
217,743	-	-	217,743
2,588,993	-	-	2,588,993
<u>37,653,308</u>	<u>-</u>	<u>-</u>	<u>37,653,308</u>
2,555,463	-	-	2,555,463
2,343,873	-	-	2,343,873
<u>4,899,336</u>	<u>-</u>	<u>-</u>	<u>4,899,336</u>
<u>42,552,644</u>	<u>-</u>	<u>-</u>	<u>42,552,644</u>
<u>(53,797)</u>	<u>113,688</u>	<u>(59,891)</u>	<u>-</u>
<u>\$ 743,710</u>	<u>\$ (2,823,883)</u>	<u>\$ 3,593,958</u>	<u>\$ 1,513,785</u>

South Dakota State University Foundation
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets (Deficit) December 31, 2013	\$ (11,241,281)	\$ 58,294,254	\$ 120,781,851	\$ 167,834,824
Change in net assets	<u>743,710</u>	<u>(2,823,883)</u>	<u>3,593,958</u>	<u>1,513,785</u>
Net Assets (Deficit) December 31, 2014	(10,497,571)	55,470,371	124,375,809	169,348,609
Change in net assets	<u>(4,135,302)</u>	<u>1,521,291</u>	<u>2,558,158</u>	<u>(55,853)</u>
Net Assets (Deficit) December 31, 2015	<u>\$ (14,632,873)</u>	<u>\$ 56,991,662</u>	<u>\$ 126,933,967</u>	<u>\$ 169,292,756</u>

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

	Current Year	Prior Year Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, Fees, & Auxiliaries (Net of Scholarship Allowance & Discounts)	\$ 118,415,836.00	\$ 114,601,160.25
General Sales & Services	31,395,085.99	27,328,046.17
Federal Grants & Contracts	36,685,881.74	33,500,976.53
State Grants & Contracts	6,404,830.62	5,127,361.10
Private Grants & Contracts	14,233,163.12	14,172,899.81
Loans Collected from Students	2,001,044.34	2,096,731.87
Student Loan Interest	208,030.98	201,896.74
Other Receipts	37,949.22	50,891.08
Personal Services (salaries & benefits)	(162,765,478.76)	(159,798,113.57)
Travel	(8,771,847.25)	(7,927,925.13)
Contractual Services	(44,488,211.95)	(40,802,258.07)
Supplies & Materials	(27,692,081.81)	(26,211,094.37)
Grants & Subsidies	(19,575,746.84)	(17,674,308.34)
Interest	(6,166.87)	(1,161.92)
Other Payments	(72,476.50)	(79,829.63)
NET CASH USED BY OPERATING ACTIVITIES	\$ (53,990,187.97)	\$ (55,414,727.48)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
General Fund Appropriations	\$ 66,298,703.34	\$ 64,508,403.00
School & Public Lands	705,977.10	612,290.81
Federal Fund Appropriations	5,923,006.58	10,033,921.00
Federal Loans Disbursements (Stafford & PLUS)	(56,649,960.00)	(58,769,042.00)
Federal Loan Receipts (Stafford & PLUS)	56,649,960.00	58,769,042.00
Higher Education Facilities Fund	1,385,170.20	711,621.31
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Federal Capital Contribution - Student Loans	251,712.00	81,415.00
Net Change in Funds Held for Others	159,605.85	91,974.09
Other Non-Operating Revenue PELL Grants	9,663,418.65	10,994,139.17
Other Non-Operating Revenues & Additions	18,836.40	18,058.72
Other Non-Operating Expenses	-	(7,650.00)
NET CASH FLOWS PROVIDED BY NDCAPITAL FINANCIAL ACTIVITIES	\$ 84,656,430.12	\$ 87,294,173.10
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Higher Education Facilities Fund	\$ 3,944,360.64	\$ 2,174,339.16
SD Building Authority Bond Proceeds	32,117,063.11	17,141,309.80
Purchase of Capital Assets	(72,641,023.02)	(45,985,501.49)
Gain on Sale of Land - Gross Proceeds	-	7,650.00
Gain/(Loss) on Disposal - Surplus Sales	23,560.60	4,290.00
Proceeds from Capital Debt (Bonds & Leases)	919,602.00	-
Principal Payments on Bonds & Capital Leases	(5,011,099.98)	(4,568,109.68)
Interest Payments on Bonds & Capital Leases	(5,871,798.79)	(5,700,001.32)
Notes Payable Financing Agreement	(165,000.00)	(165,000.00)
BAB Subsidy	538,646.70	551,057.02
BOR M&R General Funds & Swine HEFF	1,485,718.42	592,067.95
Capital Grants & Contracts	18,073,593.72	14,925,687.37
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (26,586,376.60)	\$ (21,022,211.19)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	\$ 700,456.31	\$ 347,705.35
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 700,456.31	\$ 347,705.35
Net Increase (Decrease) in Cash	\$ 4,780,321.86	\$ 11,204,939.78
Cash - Beginning of the year	53,804,013.85	42,599,074.07
Cash - End of the year	<u>\$ 58,584,335.71</u>	<u>\$ 53,804,013.85</u>

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

	Current Year	Prior Year Restated
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	\$ (73,022,858.87)	\$ (76,174,078.73)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	19,613,611.18	19,849,753.04
Amortization of Intangibles	50,671.42	50,671.42
Bad Debt Expense	188,295.00	15,926.00
Loan Cancellation Expense	331,166.30	319,798.16
Change in Assets and Liabilities:		
Accounts Receivable Students	(1,080,506.91)	74,937.90
Accounts Receivable Dept	(184,396.47)	(325,824.79)
Prepaid Expenses	(691,407.93)	95,228.84
Notes Receivable	(614,201.66)	(229,602.24)
Due From Federal Sources	610,208.06	(51,541.48)
Due From Primary Government	387,261.37	107,891.26
Due From Other Component Units	(667,516.54)	(384,716.67)
Inventories	842,505.80	(559,535.95)
Other Assets	45,000.00	45,000.00
Accounts Payable	(1,729,759.72)	1,242,342.46
Accrued Wages and Benefits	106,322.38	548,130.36
Due To Primary Government	(167,090.20)	99,606.75
Due To Other Component Units	447,494.46	(140,317.64)
Compensated Absences Payable	395,966.25	737,141.41
Unearned Revenue	1,149,050.11	(735,537.58)
NET CASH USED BY OPERATING ACTIVITIES	\$ (53,990,187.97)	\$ (55,414,727.48)
Non-Cash Investing, Capital and Financing Activities:		
Loss on Disposal of Fixed Assets	\$ (1,280,010.02)	\$ (302,662.22)

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

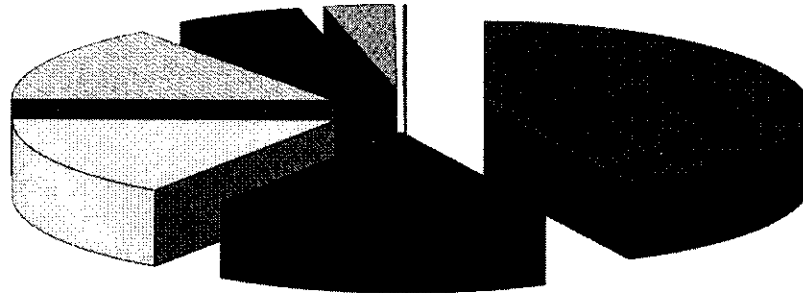
South Dakota State University Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ (55,853)	\$ 1,513,785
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	439,319	430,232
Net realized and unrealized gains and losses	4,035,496	(683,088)
Loss (gain) on the disposal of property	2,112	(14,239)
Gain on the disposal of property held for investment	(145)	(76,176)
Provision for uncollectible receivables	296,328	1,239,452
Change in value of cash surrender value of life insurance	(43,484)	(48,242)
Change in value of beneficial interest in perpetual trust	65,489	(16,857)
Unrestricted and temporarily restricted non-cash gifts	(73,695)	(5,464,322)
Restricted for long-term purposes		
Permanently restricted gifts and revenue	(3,071,321)	(2,785,651)
Permanently restricted gifts other than cash	(188,652)	(2,951)
Transfer of property held for investment to SDSU	698,318	-
Changes in assets and liabilities		
Promises to give	1,886,088	(2,386,017)
Trusts held by others	1,024,782	(244,421)
Prepaid expenses, inventory, and other assets	1,325,723	255,208
Accounts payable, accrued expenses, and other liabilities	(267,346)	(277,939)
Due to SDSU - scholarships	181,273	20,994
Investments held for others	(120)	(93,296)
Gift annuities, life income agreements, and life estates	(929,580)	635,034
Net Cash from (used for) Operating Activities	5,324,732	(7,998,494)
Investing Activities		
Proceeds from the sale of investments	2,048,144	36,332,309
Purchases of investments	(6,545,601)	(29,461,187)
Proceeds from the sale of property	359,247	-
Purchases of property	(660,778)	(542,377)
Proceeds from the sale of property held for investment	804,413	3,657,900
Purchases of property held for investment	(1,094,835)	(1,058,252)
Receipts on notes, contract, and other receivables	196,798	396,557
Net Cash (used for) from Investing Activities	(4,892,612)	9,324,950
Financing Activities		
Proceeds from notes payable	-	29,700
Payments on notes payable	(3,440,907)	(2,656,158)
Proceeds from permanently restricted contributions	3,373,826	5,315,517
Net Cash (used for) from Financing Activities	(67,081)	2,689,059
Net Change in Cash and Cash Equivalents	365,039	4,015,515
Cash and Cash Equivalents, Beginning of Year	8,867,482	4,851,967
Cash and Cash Equivalents, End of Year	\$ 9,232,521	\$ 8,867,482

South Dakota State University Foundation
Consolidated Statements of Cash Flows
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 305,226	\$ 364,856
Supplemental Disclosure of Non-Cash Transactions		
Commodities and other non-cash assets received as gifts	\$ 262,347	\$ 2,111,873
Life estates received as gifts	-	3,035,000
Property held for investment received as gifts	-	320,400

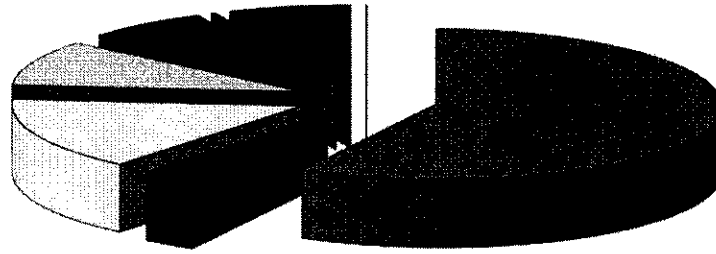
OPERATING REVENUES
\$209,794,084
SDSU & ATTACHED AGENCIES



- Tuition & Fees - \$89,366,042
- Federal Grants & Contracts - \$35,329,048
- Auxiliaries - \$32,680,951
- General Sales & Services - \$31,002,511
- Private & Other Grants & Contracts - \$13,721,042
- ▣ State Grants & Contracts - \$7,430,654
- Student Loan Interest - \$208,031
- ▣ Other Revenues & Additions - \$55,805

	FY16	RESTATED FY15	INCREASE (DECREASE)
Tuition & Fees	89,366,042	84,510,814	4,855,228
Auxiliaries	32,680,951	32,115,494	565,457
General Sales & Services	31,002,511	27,605,095	3,397,416
Federal Grants & Contracts	35,329,048	33,464,573	1,864,475
State Grants & Contracts	7,430,654	5,538,613	1,892,041
Private & Other Grants & Contracts	13,721,042	14,879,205	(1,158,163)
Student Loan Interest	208,031	201,897	6,134
Other Revenues & Additions	55,805	296,508	(240,703)
TOTAL OPERATING REVENUE	209,794,084	198,612,199	11,181,885

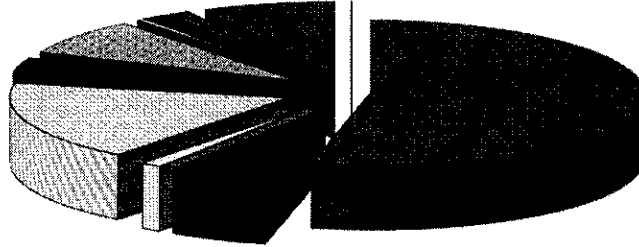
OPERATING EXPENSES
\$282,816,943
SDSU & ATTACHED AGENCIES



- Personal Services - \$163,267,767
- Travel - \$8,607,838
- Contractual Services - \$43,356,351
- Supplies & Materials - \$27,677,819
- Grants & Subsidies - \$19,644,781
- Interest - \$6,167
- Loan Cancellation Expense - \$331,166
- Bad Debts - \$188,295
- Depreciation - \$19,613,611
- Amortization of Intangibles - \$50,671
- Other Operating Expenses - \$72,477

	FY16	FY15	INCREASE (DECREASE)
Personal Services	163,267,767	161,083,385	2,184,382
Travel	8,607,838	8,039,376	568,462
Contractual Services	43,356,351	41,023,130	2,333,221
Supplies & Materials	27,677,819	26,537,071	1,140,748
Grants & Subsidies	19,644,781	17,786,176	1,858,605
Interest	6,167	1,162	5,005
Loan Cancellation Expense	331,166	319,798	11,368
Bad Debts	188,295	15,926	172,369
Depreciation	19,613,611	19,849,753	(236,142)
Amortization of Intangibles	50,671	50,671	-
Other Operating Expenses	72,477	79,830	(7,353)
TOTAL OPERATING EXPENSES	282,816,943	274,786,278	8,030,665

NON-OPERATING REVENUE
\$124,086,397
SDSU & ATTACHED AGENCIES



■ General Fund Appropriations - \$66,298,703
■ Federal Fund Appropriations - \$7,192,378
□ Capital Appropriations - \$1,485,718
□ Capital Grants & Contracts - \$21,835,276
■ Capital HEFF - \$3,944,361
□ SD Building Authority Bond Proceeds - \$10,050,428
□ BAB Subsidy - \$538,647
□ Endo/Ecto Parasiticide Tax - \$250,000
■ Higher Education Facilities Fund - \$1,385,170
■ Investment Income - \$710,012
■ School & Public Lands - \$705,977
■ Other Non-Operating Revenue PELL Grants - \$9,663,419
■ Other Non-Operating Revenue & Additions - \$26,308

	FY16	RESTATED FY15	INCREASE (DECREASE)
General Fund Appropriations	66,298,703	64,508,403	1,790,300
Federal Fund Appropriations	7,192,378	5,971,224	1,221,154
Capital Appropriations	1,485,718	592,068	893,650
Capital Grants & Contracts	21,835,276	15,558,017	6,277,259
Capital HEFF	3,944,361	2,174,339	1,770,022
SD Building Authority Bond Proceeds	10,050,428	3,413,421	6,637,007
BAB Subsidy	538,647	551,057	(12,410)
Endo/Ecto Parasiticide Tax	250,000	250,000	-
Higher Education Facilities Fund	1,385,170	711,621	673,549
Investment Income	710,012	366,909	343,103
School & Public Lands	705,977	612,291	93,686
Other Non-Operating Revenue PELL Grants	9,663,419	10,994,139	(1,330,720)
Other Non-Operating Revenue & Additions	26,308	17,203	9,105
TOTAL NON-OPERATING REVENUE	124,086,397	105,720,692	18,365,705

SOUTH DAKOTA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION: The University has adopted the financial statement presentation 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* as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and by GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required prior to FY 2002.

B. REPORTING ENTITY: The financial statements include the funds of all agencies of South Dakota State University. The agencies include University Proper, SDSU Extension & Agricultural Experiment Station. The University is 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.

Based on the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, it was determined that the South Dakota State University Foundation is a component unit of the University. In accordance with GASB 39, the SDSU Foundation's financial statements are presented behind the statements of the University. The financial statements of the SDSU Foundation are audited by independent auditors engaged by the SDSU Foundation Board of Directors.

C. BASIS OF ACCOUNTING: The University is considered to be a special-purpose government engaged only in business-type activities. The financial statements are prepared on the accrual basis, including recognizing depreciation expense on capitalized assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Interdepartmental charges are treated as a transfer of expense per NACUBO guidelines.

D. FUND ACCOUNTING: In order to ensure 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 funds that are maintained in accordance with activities or objectives specified by donors, governmental appropriations, granting agencies, and other outside sources or regulations.

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

E. ACCOUNTS RECEIVABLE: Accounts Receivable consists of funds owed to various University departments at June 30, 2016 from external sources. Accounts Receivable would include funds owed from students for outstanding tuition & fee charges as well as funds owed to University departments from external sources for various sales & services. The University uses the direct write-off method for uncollectible receivables.

F. NOTES RECEIVABLE: Notes receivable mostly consist of amounts associated with various student loan programs. The allowance method is used in calculating uncollectible accounts for these receivables. Under the allowance method, a reserve is established for the projected amount that will become uncollectible. The projection for loan funds is based on current default rates and on departmental knowledge of loans considered to be uncollectible. Under the allowance method the expense is recognized as soon as the loan is projected to be uncollectible.

In addition to student notes receivable, the University has a 10 year notes receivable for \$173,711.00 with the SD Growth Partnership for the construction of the AES Hoop Barn. Payments on the notes receivable began on 09/01/2015 and were scheduled to end on 09/01/2024. The notes receivable was considered to be fully collectible, so no allowance for uncollectible amounts had been established for this notes receivable. In October of 2016, the Board of Regents approved the request to accept \$120,000 from the SD Growth Partnership on or before February 1, 2017 in full satisfaction of the balance of this notes receivable.

Total notes receivable as of June 30, 2016 was \$12,240,931.87 with a corresponding allowance of \$535,439.00 for a net notes receivable of \$11,705,492.87.

G. INVESTMENTS: Investments consist of funds on deposit with the State Treasurer which are pooled by the State Investment Council for investment purposes. Investments are reported at cost as market values are not readily available for funds on deposit with the State Treasurer. Interest earnings on Current Funds investments are not received by the University but are credited to the State of South Dakota's General Fund with the exception of funds for School & Public Lands, Foundation Seed Stock, Seed Certification, Self-Support Tuition, Campus Card Revolving, Auxiliary Enterprises and Loans, which do receive interest earnings. In addition, interest earnings are received for Investments in the Unexpended Plant Fund, Renewals and Replacements Fund and Retirement of Indebtedness Fund. Interest earnings in the Unexpended Plant Fund are primarily from the unexpended portion of the Construction accounts for various Auxiliary Enterprise renovation projects.

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

Other investments include patronage equities which consist of equity credits from various vendors resulting from business conducted with the vendors.

H. INVENTORIES: Inventories of supplies and materials are reported at original cost or last invoice price except for Foundation Seed Stock inventory which is reported at market (lower of cost or market), University Bookstore inventory which is reported at estimated cost (retail value less markups), Dairy Plant inventory which is reported at estimated cost of production and Livestock inventories which are reported at June 30, 2016 market price. All reported inventories are resalable or consumable. Changes in inventory valuations are reported as a portion of expenditures.

I. DUE TO/DUE FROM: Due From Federal Sources represent expenditures made on grants or Federal Appropriations for which reimbursement has not yet been received.

Due From Primary Government represents funds owed from various state agencies of South Dakota, outside of Higher Education. Due to Primary Government represents funds owed to various state agencies of South Dakota, outside of Higher Education.

Due From Other Component Units represent funds owed from other South Dakota public universities, the South Dakota School for the Deaf, the South Dakota School for the Blind & Visually Impaired, the South Dakota Board of Regents and the South Dakota Building Authority (for expenditures to be reimbursed by SDBA and for debt financing between SDSU and the SDBA). Due To Other Component Units represent funds owed to other South Dakota public universities, the South Dakota School for the Deaf, the South Dakota School for the Blind & Visually Impaired and the South Dakota Board of Regents.

All funds owed to or from other University accounts have been eliminated for financial reporting purposes.

J. CAPITAL ASSETS: Equipment includes \$41,133,051.81 for library books and \$87,939.71 in Nursing films. Library books and films as well as the Nursing films are added to the inventory listing at cost during the year of their purchase. When library books and films are deleted from the inventory listing, they are valued and deleted at the average cost calculated at the end of the previous year. Nursing films are deleted at actual cost unless this information is unobtainable, in which case a reasonable cost is assigned to the films for deletion purposes. Equipment is capitalized if the unit cost is \$5,000 or more and has a useful life of 1 year or more.

The South Dakota Art Museum collection of \$8,830,215.50 is a non-depreciable asset and is valued at estimated fair market value. The art collection includes all items in the collection including those items that are less than \$5,000.00. Equipment additions to the art collection are based on the actual purchase price of the item or on the estimated fair market value of the item on the date of the gift. Equipment deletions to the art collection are based on the carrying cost of the item on the date of disposal.

Land, buildings & building improvements, land improvements and infrastructure are capitalized at cost at the time of purchase or, if contributed, at the appraised value at the date of gift. The University capitalized major additions to plant assets when the addition increased the value by \$100,000 or more for buildings & building improvements and \$50,000 or more for land improvements and infrastructure.

The University depreciated buildings & building improvements, land improvements, infrastructure and equipment. Buildings are depreciated over 50 years for a major structure, 25 years for pole and storage buildings and 10 years for minor structures. Building improvements and land improvements are depreciated over 20 years. Infrastructure is depreciated over a range of 20 to 50 years. Equipment is depreciated over various useful lives based on classes of assets. Library books are depreciated based on a 10 year average.

Major additions to plant assets which are not substantially completed at year end are included in the financial statements as construction in progress. Major additions are transferred to buildings & building improvements, or land improvements, or infrastructure at the earliest occurrence of substantial completion of the project, occupancy or when the asset is placed in service.

Prior to Summer of 2016, the Higher Education Facilities Fund was allocated 20% of state support tuition and system fees from all state supported universities in South Dakota for building improvements. Effective Summer of 2016, the Higher Education Facilities Fund is allocated 11.5% of state support tuition and system fees to be used for building improvements. The change was implemented as a result of rolling the University Support Fee into State Support Tuition.

K. INTANGIBLE ASSETS: Intangible Assets represent expenditures made to purchase licensed software from external sources with an initial useful life extending beyond one fiscal year. The Intangible Assets include a Facilities AIM software system, StarRez Software for Residential Life, a Parking Management System and a SdState Website - CMS. Intangible Assets are reported on the University's financial statements net of accumulated amortization. The Intangible Assets of \$465,815.14 consists of \$602,227.71 in cost less accumulated amortization of \$136,412.57. The Intangible Assets are being amortized over the estimated useful life of the software.

L. DEFERRED OUTFLOWS OF RESOURCES: Deferred Outflows of Resources is a consumption of net position by the University that is applicable to a future reporting period. The University reported \$118,860.83 of Deferred Outflow on Debt Refunding which consists of \$100,982.98 from the issuance of the Series 2014A bonds which was a current refunding of the Series 2004 bonds and \$17,877.85 from the issuance of the Series 2015 bonds which was a current refunding of the Series 2005A bonds. The Deferred Outflow on Debt Refunding is the difference between the reacquisition price and the net carrying amount of the old debt. The Deferred Outflow on Debt Refunding is being amortized over the life of the old debt.

M. NET POSITION: Net Position is classified according to external donor restrictions or availability of assets for satisfaction of University obligations.

Net Investment in Capital Assets represents the net value of capital assets (land, buildings & building improvements, land improvements, infrastructure, construction in progress, equipment, South Dakota Art Museum collection and intangible assets) less the outstanding debt incurred to acquire or construct the asset.

Nonexpendable Restricted Net Position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Expendable Restricted Net Position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

N. SCHOLARSHIP ALLOWANCES AND STUDENT AID: Tuition and fee revenue has been reported net of scholarship allowances and student aid in accordance with the alternative method prescribed by NACUBO. Under the alternative method, tuition and fee revenue is reduced by the amount that was paid for by certain types of financial aid, such as PELL grants, scholarships and other governmental grants, etc. The alternative method eliminated the double reporting of revenue, first as financial aid revenue and then as tuition and fee revenue. Using the alternative method, the revenue is recognized for the financial aid grants, scholarships, etc. while the financial aid expense and tuition and fee revenue is eliminated for the amount of financial aid applied to student accounts.

O. REVENUE RECOGNITION: The University uses accrual basis accounting and therefore recognizes revenues when earned. Current year revenue is recognized for all outstanding accounts receivable owed to the University from external sources as of June 30, 2016.

P. OPERATING AND NON-OPERATING REVENUES: Operating revenues include tuition and fee revenue, departmental sales & services, sales & services of auxiliary enterprises, Loan funds and exchange transactions. Most of the revenue generated from the University's federal, state and private & other grants have been determined to be exchange transactions.

Non-operating revenues include state appropriations, federal appropriations, non-exchange transactions and most investment income.

II. 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 market value. Cash equivalents include short-term investments with original maturities of three months or less.

III. RETIREMENT PLAN

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

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

IV. STATE APPROPRIATIONS

The State General Fund Appropriation for fiscal year 2016 was \$66,298,703.34. Effective July 1, 1994, the University no longer deposits state support tuition and system fees into the State General Fund but rather deposits them into the Board of Regents System Tuition Fund.

V. TUITION AND FEES

Prior to Summer of 2016, the University reported state support tuition and system fees revenue it received back from the Board of Regents System Tuition Fund. Historically, the amount received from the Board of Regents System Tuition Fund consisted of state support tuition and system fee revenue along with the Salary Competitiveness Fee. Effective for Summer of 2016, Salary Competitiveness Fee is no longer remitted to the Board of Regents System Tuition Fund and is reported as part of State Support on the University's financial statements. Effective for Summer of 2016, the University Support Fee (USF) is now assessed as part of state support tuition within the University's Student Information System. A portion of the USF assessment is for the BOR Technology Fee and for the M&R Fee which are now also reported as part of State Support on the University's financial statements when collected.

For fiscal year 2016, the University received \$42,853,315.26 from the Board of Regents System Tuition Fund which consisted of \$35,268,826.86 for State Support tuition and \$7,584,488.40 for Salary Competitiveness fee. In addition, the University reported \$341,748.54 of Salary Competitiveness Fee, \$94,294.99 of the BOR Technology Fee and \$21,202.71 of the M&R Fee received during Summer of 2016 as part of State Support on the University's financial statements.

The University collected a total of \$52,517,987.02 in state support tuition and system fees for fiscal year 2016. Of the \$52,517,987.02, \$44,050,754.52 was remitted to the Board of Regents System Tuition Fund while \$8,467,232.50 was remitted to the Higher Education Facilities Fund. The \$44,050,754.52 includes \$7,584,488.40 of Salary Competitiveness fee, \$78,266.83 of EUC revenue, \$353,682.41 of Technology fee and \$861,282.01 of Science Lab Facilities Bond. These amounts are not reported on the University's financial statements.

The University also reported \$17,681,630.89 of Self Support tuition and \$48,227,524.20 of student fees which included the Salary Competitiveness fee received from the Board of Regents System Tuition Fund of \$7,584,488.40.

VI. STUDENT FEES

A system-wide pool of funds has been created for the Student Information System (SIS) and computer upgrade expenses for the Regents Information System (RIS). Effective during the second half of FY2001, an annual allocation was determined based on a three year average of actual RIS support. The allocation amount owed to RIS by each campus is determined on an annual basis. The FY16 allocation to the Regents Information System was \$1,605,859.00. The allocation amount was expended from tuition and fees collected from students.

For FY16, an additional \$379,436.00 was expended from student fees to reimburse the State General Fund for the Series 2007 Critical M&R Bond Debt Service payments.

VII. 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.

Asset information for the Endowment and similar funds administered by the Department of School and Public Lands as of June 30, 2016 may be found on the Department of School & Public Lands' web site at www.sdpubliclands.com/support/index.shtm.

VIII. COMMITMENTS

The University had outstanding commitments of \$31,912,569.41 for architectural/engineering and construction contracts for Capital Improvement Projects as of June 30, 2016 from Facilities & Services. These contracts are filed in Facilities and Services. The \$31,912,569.41 does not include

contracts filed in other departments nor does it include any commitments from Non-Capital projects. The majority of the \$31,912,569.41 will be expended by June 30, 2017.

IX. RELATED PARTIES

The financial statements of South Dakota State University, which is a component unit of the State of South Dakota, do not include the assets, liabilities or net position of affiliated organizations, whose financial statements are separately audited. Each organization is described below:

The SDSU Foundation is a non-profit corporation founded in 1946 to receive and administer private gifts made in support of programs at South Dakota State University.

The Enterprise Institute is a private, non-profit corporation that provides customized business development and commercialization services to researchers, inventors, and start-up companies in South Dakota. The Enterprise Institute was created for the mutual benefit of South Dakota State University and the city of Brookings, SD.

X. STUDENT DEPOSITS

Student Deposits of \$417,892.10 consist of funds held for students for the University's debit card program, Federal Stafford loan program, Federal PLUS Loan program, Student Alternative Loan program, Federal Direct Loan program, Residence Hall room deposits, Nursing deposits, Pharmacy deposits, and Cashiers Clearing deposits. Student Deposits consist primarily of cash assets.

XI. FUNDS HELD FOR OTHERS

Funds Held for Others consist of \$469,556.45 in funds held for various student & affiliated organizations. The funds held for others are principally cash.

XII. CAPITAL ASSETS

A summary of changes in Capital Assets follows:

	Balance 7/1/2015	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2016
Land	10,514,049.90		2,136,679.00		12,650,728.90
Land Improvements	14,595,657.48	2,374.75	471,844.28		15,069,876.51
Infrastructure	21,882,322.26		733,667.94		22,615,990.20
Buildings & Improv	475,389,124.84	1,377,826.69	6,640,182.40	(3,148,106.16)	480,259,027.77
SD Art Museum	8,753,715.50		76,500.00		8,830,215.50
Equip. & Other Property	104,320,948.40	(1,866,995.88)	8,069,753.98	(1,528,707.32)	108,994,999.18
Total	635,455,818.38	(486,794.44)	18,128,627.60	(4,676,813.48)	648,420,838.06
Less Accumulated Depreciation:					
Land Improvements	(6,829,841.00)	(238.00)	(624,710.00)		(7,454,789.00)
Infrastructure	(6,216,513.87)		(592,180.00)		(6,808,693.87)
Buildings & Improv	(143,142,941.09)	(84,643.00)	(12,510,753.40)	2,184,356.00	(153,553,981.49)
Equip. & Other Property	(78,174,895.00)	1,877,928.39	(5,885,967.78)	1,188,886.86	(80,994,047.53)
Total Accum Depr	(234,364,190.96)	1,793,047.39	(19,613,611.18)	3,373,242.86	(248,811,511.89)
Net Capital Assets	401,091,627.42	1,306,252.95	(1,484,983.58)	(1,303,570.62)	399,609,326.17

XIII. CONSTRUCTION IN PROGRESS

A summary of changes in Construction in Progress follows:

	Balance 7/1/2015	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2016
Construction In Progress	36,024,618.28	32,722.07	64,197,036.68	(6,652,447.48)	93,601,929.55

XIV. NET INVESTMENT IN CAPITAL ASSETS

The Net Position category, Net Investment in Capital Assets, represents the total cost of the fixed assets, less accumulated depreciation, less any outstanding debt pertaining to the fixed assets.

XV. LONG-TERM LIABILITIES

Long-Term liabilities include bonds payable, notes payable, obligations under capital leases, compensated absences and the federal capital contributions to the federal loan programs.

	Interest Rate	Maturity Date	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Current Portion
Capital Leases:							
Binnewies Land	9.445%	2030	0	919,602	(85,045)	834,557	32,588
Cow/Calf Unit	4.63%- 5.00%	2038	1,829,475		(48,555)	1,780,920	48,986
Stadium Project	4.00%- 5.00%	2039	33,910,000			33,910,000	835,000
Notes Payable:							
Equestrian Facility		2017	330,000		(165,000)	165,000	165,000
Revenue Bonds Payable:							
Series 2005A Bonds	4.00%- 5.00%	2016	2,220,000		(2,220,000)	0	0
Series 2006 Bonds	3.92%	2026	5,155,000		(385,000)	4,770,000	400,000
Series 2009 Bonds	2.15%- 6.25%	2034	28,380,000		(1,070,000)	27,310,000	1,100,000
Series 2011 Bonds	3.00%- 5.00%	2036	54,645,000		(1,610,000)	53,035,000	1,660,000
Series 2014A Bonds	3.00%- 5.00%	2025	21,410,000		(1,690,000)	19,720,000	1,830,000
Series 2015 Bonds	3.00%- 5.00%	2030	0	1,940,000	(70,000)	1,870,000	100,000
Sub-Total			147,879,475	2,859,602	(7,343,600)	143,395,477	6,171,574

Other Long-Term Liabilities:					
Compensated Absences	15,342,676	6,020,420	(5,624,454)	15,738,642	5,217,599
Federal Capital Contributions	10,843,812	251,712		11,095,524	0
Sub-Total	<u>26,186,488</u>	<u>6,272,132</u>	<u>(5,624,454)</u>	<u>26,834,166</u>	<u>5,217,599</u>
Total Long-Term Liabilities	<u>174,065,963</u>	<u>9,131,734</u>	<u>(12,968,054)</u>	<u>170,229,643</u>	<u>11,389,173</u>

Federally funded loans to students (Perkins Loan Program, Health Profession Loan Program, and Nursing Loan Program) and Compensated Absences have been determined to be long-term liabilities.

Obligations Under Capital Leases are lease agreements to partially finance the cost of construction of the Stadium Project and the Cow/Calf Unit through the South Dakota Building Authority and to finance the purchase of Binnewies Land from the SDSU Foundation. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2016.

The annual requirements to amortize all Capital Leases outstanding as of June 30, 2016, including interest payments of \$25,720,585.30 are as follows:

Fiscal Year	Principal	Interest	Total
2017	916,574.22	1,842,626.89	2,759,201.11
2018	950,605.35	1,805,220.49	2,755,825.84
2019	990,148.48	1,766,069.69	2,756,218.17
2020	1,041,461.72	1,714,732.70	2,756,194.42
2021	1,098,368.44	1,660,653.18	2,759,021.62
2022-2026	6,409,582.71	7,382,859.13	13,792,441.84
2027-2031	8,099,609.36	5,523,169.66	13,622,779.02
2032-2036	9,924,191.30	3,310,606.46	13,234,797.76
2037-2039	7,094,935.00	714,647.10	7,809,582.10
	<u>36,525,476.58</u>	<u>25,720,585.30</u>	<u>62,246,061.88</u>

Notes Payable is a financing agreement between South Dakota State University and the SDSU Foundation for the new Equestrian Facility. SDSU will make annual payments to the SDSU Foundation of \$165,000 per year for a period of ten years. The last payment is due during FY17. Payments will come from General Activity Fees designated for Title IX compliance. The balance of the Notes Payable was \$165,000 as of June 30, 2016.

Revenue Bonds Payable are authorized by the Board of Regents and were issued to finance the construction of residence halls, food service facilities, expansion of the Student Union, construction of the Wellness Center and for parking lot development. The revenue bonds payable outstanding as of June 30, 2016 is as follows:

Housing & Auxiliary Facilities Revenue Bonds-Series 2006 Wellness Center, Food Service and Res Hall Improvements Interest at 3.92% Annually to 2026	4,770,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2009 New Residence Halls, Dining Expansion and Parking Interest at 2.15% - 6.25% Annually to 2034	27,310,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2011 New Residence Halls, Union Expansion/Dining, Family Student Housing and Parking Expansion Interest at 3.00% - 5.00% Annually to 2036	53,035,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2014A Suite Style Res Hall/Union Expansion/Res Hall Renovation Interest at 3.00% - 5.00% Annually to 2025	19,720,000
Housing & Auxiliary Facilities Revenue Bonds-Series 2015 Residence Hall Renovation/Refinance Interest at 3.00% - 5.00% Annually to 2030	<u>1,870,000</u>
Total	<u>106,705,000</u>

These bonds are not collateralized. Payment comes from the pledged net revenues from the operation of the residence halls, food service, Student Union, Wellness Center and parking operations. The FY16 pledged net revenue for the University was \$14,224,320.32.

The Series 2009 bonds were issued as Build America Bonds. Under the current existing procedures, the University is eligible to receive a Build America Bond Subsidy equal to approximately 35% of the interest payment then due, provided that the subsidy request is filed on a timely basis.

On January 9, 2014, the South Dakota Board of Regents (SDBOR) issued \$22,865,000 in South Dakota State University Housing & Auxiliary Facilities Revenue Bonds, Series 2014A to finance new construction as well as refund the Series 2004 bonds (Housing & Auxiliary Facilities). The refunding portion of the Series 2014A bonds had an average interest rate of 4.69 percent and was used to refund \$17,965,000 of outstanding Series 2004 bonds with an average interest rate of 4.79 percent.

The net refunding portion of the Series 2014A bonds of \$18,393,931.25 was deposited in trust with an escrow agent to provide for the current refunding of the Series 2004 bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the University financial statements.

The Board of Regents refunded the SDSU portion of the debt to reduce its total debt service payments over the next 10 years by \$2,155,272.64 and obtain a present value savings of \$1,820,514.70.

On December 22, 2015, the South Dakota Board of Regents (SDBOR) issued \$1,940,000 in South Dakota State University Housing & Auxiliary Facilities Revenue Bonds, Series 2015 to refund the Series 2005A bonds (Housing & Auxiliary Facilities). The Series 2015 bonds had an average interest rate of 4.67 percent and was used to refund \$2,220,000 of outstanding Series 2005A bonds with an average interest rate of 4.83 percent.

The net refunding portion of the Series 2015 bonds of \$2,250,265.31 was deposited in trust with an escrow agent to provide for the current refunding of the Series 2005A bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the University financial statements.

The Board of Regents refunded the SDSU portion of the debt to reduce its total debt service payments over the next 15 years by \$380,606.88 and obtain a present value savings of \$299,453.01.

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2016, including interest payments of \$53,215,101.38 are as follows:

Fiscal Year	Principal	Interest	Total
2017	5,090,000.00	5,248,127.76	10,338,127.76
2018	5,290,000.00	5,027,922.76	10,317,922.76
2019	5,500,000.00	4,786,536.00	10,286,536.00
2020	5,745,000.00	4,532,942.50	10,277,942.50
2021	6,000,000.00	4,247,515.00	10,247,515.00
2022-2026	31,580,000.00	16,537,219.76	48,117,219.76
2027-2031	23,500,000.00	9,658,806.32	33,158,806.32
2032-2036	24,000,000.00	3,176,031.28	27,176,031.28
Total	<u>106,705,000.00</u>	<u>53,215,101.38</u>	<u>159,920,101.38</u>

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

	Total Bonds Payable	Short-Term Portion	Long Term Portion
Revenue Bonds Payable	\$ 106,705,000.00	\$ 5,090,000.00	\$ 101,615,000.00
Premium	4,731,821.89	382,646.82	4,349,175.07
Original Issue Discount	(55,870.87)	(3,103.94)	(52,766.93)
Per Statement of Net Position	<u>\$ 111,380,951.02</u>	<u>\$ 5,469,542.88</u>	<u>\$ 105,911,408.14</u>

COMPENSATED ABSENCES:

Annual leave is earned by State of South Dakota employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balance. At June 30, 2016, a liability existed for accumulated annual leave calculated at the employees' June 30, 2016 pay rates. The accrued annual leave liability for the University as of June 30, 2016 was \$6,028,676.75. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of the employees' annual compensation. At June 30, 2016, a liability existed for accumulated sick leave calculated at the employees' June 30, 2016 pay rates in the amount of \$9,709,965.73.

FEDERAL CAPITAL CONTRIBUTION:

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

XVI. LITIGATION

The University is involved in various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, the resolution of these lawsuits will not have a material effect upon the University's financial position.

XVII. RECONCILIATION OF GASB 34 & COLLEGE AUDIT GUIDE MODELS

	Balance 7/1/2015	FY16 Changes	Balance 6/30/2016
Fund Balances, College & University Audit Guide	595,655,659.47	60,307,920.11	655,963,579.58
Model Differences:			
Accumulated Depreciation	(234,364,190.96)	(14,447,320.93)	(248,811,511.89)
Reclassification of Federal Loan Programs	(10,843,812.42)	(251,712.00)	(11,095,524.42)
Net Position total per SNP & SRECNP	<u>350,447,656.09</u>	<u>45,608,887.18</u>	<u>396,056,543.27</u>

XVIII. RISK MANAGEMENT

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

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

XVIV. RESTRICTED NET POSITION

The University had a restricted non-expendable net position for Loans of \$2,051,898.58 which consisted primarily of Cash and Notes Receivable issued to students less estimated allowance for uncollectible receivables less Federal Capital Contributions which represents the funds that would be owed to the federal government if the federal loan programs were eliminated.

The University had a restricted expendable net position for scholarships & fellowships of \$197,974.23 which consisted primarily of funds available to be expended from outside scholarship sources.

The University had Other restricted expendable net position of \$7,605,970.52 which consisted of \$2,732,610.54 of net position restricted by various grants & contracts and federal appropriations & \$4,873,359.98 of net position restricted by bond covenants to be held for use in Renewals & Replacements of buildings covered by various bond covenants.

XX. PRIOR PERIOD ADJUSTMENTS

The University had prior period adjustments which increased the beginning Net Position total by \$1,335,395.14.

Summary of Prior Period Adjustments:

<u>June 30, 2015 Asset/Liability Correction</u>	<u>Effect on Net Position</u>
Accounts Receivable Overstated	(3,579.88)
Construction in Progress Understated	32,722.07
Buildings & Bldg Impr Understated	1,293,183.69
Land Improvements Understated	2,136.75
<u>Equipment & Other Property Understated</u>	<u>10,932.51</u>
Net Change to Beginning Net Position	<u>1,335,395.14</u>

Note 1 - Principal Activities and Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of South Dakota State University Foundation (the Foundation), Opportunities Farm (the Farm), Enterprise Institute (the Enterprise), and MightyFly SD, Inc. (MightyFly), (collectively, the Organization). All material intercompany balances and transactions have been eliminated.

Principal Business Activities

The Foundation is an independent organization established for the purpose of raising, holding, and administering funds for the benefit of South Dakota State University (SDSU).

The Farm was established to operate a profitable cattle feedlot and crop farm that provides SDSU students learning opportunities in practical agricultural application; enhancing those opportunities through demonstration, applied research, and program support. Members of the Farm's Board of Governors are subject to ratification by the Board of Governors of the Foundation, and the Farm is under common management with the Foundation. Effective January 1, 2016, the Foundation changed the model of the Farm. Previously the Foundation employed a Farm manager to oversee all farming operations. Effective December 29, 2015, the inventory and machinery were sold and a cash rent agreement was established. The rent agreement continues to provide access to the Farm by the SDSU College of Agriculture and Biological Sciences as outlined in the original gift agreement. Net proceeds generated from the cash rent agreement support programs of the College, including those carried out at the cow-calf facility in Brookings. The cash rent agreement is for \$240,000 per year beginning January 1, 2016 through December 31, 2020.

The Enterprise was incorporated to support and enhance scientific research and educational opportunities for faculty and students at SDSU. The Enterprise also educates students, faculty, and members of the independent inventor community about the multi-faceted nature and impact of intellectual property issues. Members of the Enterprise's Board of Directors are subject to ratification by the Foundation's Board of Governors.

MightyFly's principal assets include two airplanes. MightyFly leases the airplanes to SDSU under agreements that provided payments of approximately \$101,900 and \$97,500 during the years ended December 31, 2015 and 2014, respectively. SDSU is responsible for all expenses related to the operations and maintenance of the airplanes. MightyFly pays annual dividends to the Foundation approximately equal to the lease payments received from SDSU. The Foundation is MightyFly's sole shareholder.

Tax Exempt Status

The Foundation, the Farm, and the Enterprise are exempt from federal income tax as non-profit corporations under Section 501(c)(3) of the Internal Revenue Code. These entities are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS and are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. The Farm and the Enterprise have each determined they are not subject to unrelated business income tax and have not filed Form 990-T. MightyFly is a C Corporation subject to federal income tax and is annually required to file a U.S. Corporation Income Tax Return (Form 1120).

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions at December 31, 2015 and 2014 that are material to the consolidated financial statements. Future accrued interest and penalties related to unrecognized tax benefits and liabilities will be recognized in income tax expense if such interest and penalties are incurred.

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 revenue and expenses. Actual results could vary from the estimates that were used.

Consolidated Statements of Cash Flows

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for investment nor restricted by donors for long-term purposes of the Organization, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures of the Organization, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Financial Instruments and Credit Risks

The Organization manages deposit concentration risk by placing cash and cash equivalents with financial institutions believed by management to be credit worthy. At times, amounts on deposit may exceed insured limits or include uninsured investments. Credit risk associated with promises to give and notes, contracts, and other receivables is considered to be limited due to high historical collection rates and because outstanding balances are primarily from donors and others that are supportive of the Organization's mission. Investments are managed by a professional investment manager whose performance is monitored by management and the Foundation's Investment Committee of the Board of Governors. Although the fair value of investments is subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Investments

Investment purchases are recorded at cost or, if donated, at fair value on the date of the donation. Thereafter, investments other than property held in trust and certificates of deposit are measured at their fair value. Appreciation and depreciation in fair value are reflected in the period occurred. Fluctuations in the United States and global markets can have a direct effect on the value of the investments presented in the accompanying consolidated financial statements.

Property held in trust, which is not readily marketable, is recorded at cost or, if donated, the fair value of the property as of the date of the donation. The property held in trust is periodically reviewed for impairment. For the years ended December 31, 2015 and 2014, no impairment charge has been recorded. Certificates of deposit are recorded at cost plus accrued interest.

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

Certain funds have been pooled for ease of management and to provide greater diversification of investments. Investments in equity and bond funds consist of direct ownership of investments or participation in mutual funds. Additionally, to achieve its investment objectives, the portfolio manager has the ability to invest in derivative and hedge instruments as a part of their investment strategies. While the Foundation does not have discretionary control over the asset guidelines of mutual funds, it believes these instruments allow the portfolio manager to take advantage of varying market forces in order to assist the Foundation in achieving its return objectives.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in gifts in the accompanying consolidated statements of activities. At times, an individual donor's promise to give may represent a substantial portion of the total outstanding promises.

Management determines the allowance for uncollectible promises to give based on management's assessment of potential bad debts and historical experience. Promises to give are written off against the allowance when they are deemed uncollectible.

Trusts Held by Others

Donors have established various split-interest agreements where the Foundation is not the trustee but is the irrevocable beneficiary of the underlying assets. The Foundation has neither possession nor control over the assets of these trusts. At the date that the Foundation receives notice of a beneficial interest in a trust held by others, a temporarily or permanently restricted gift is recorded in the consolidated statements of activities, and the Foundation's beneficial interest in the trust held by others is recorded in the consolidated statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions that market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in trusts held by others are reported at fair value in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities. Upon receipt of trust distributions or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released from restrictions or permanently restricted net assets are transferred to the endowment.

Property

The Organization's property consists of land, buildings, and equipment. Property received as support is recorded at its fair value at the time of the gift and property purchased is recorded at cost. Property is presented in the accompanying consolidated financial statements net of accumulated depreciation of \$2,680,014 and \$2,956,452 at December 31, 2015 and 2014 respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5-40 years.

The Organization reviews the carrying value of property for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposal. Impairment loss is charged to expense when identified. There was no impairment loss as of December 31, 2015 and 2014.

Property Held for Investment

Property held for investment consists of land, buildings, and equipment. Property held for investment is recorded at cost or, if donated, the fair value of the property as of the date of the donation. Property held for investment is periodically reviewed for impairment. For the years ended December 31, 2015 and 2014, no impairment charge has been recorded. All of the assets included in property held for investment will eventually be used to support SDSU.

Inventory

Inventory includes livestock and harvested crops used in the operations of the Farm. Inventory is stated at current estimated market value less estimated costs of disposal and totaled \$-0- and \$986,244 at December 31, 2015 and 2014, respectively.

Cash Surrender Value of Life Insurance

The Foundation is the owner or assignee and beneficiary of certain whole life insurance policies. These policies have aggregate face values totaling \$1,436,658 at December 31, 2015.

Beneficial Interest Trusts

The Foundation is a beneficiary in several revocable trusts administered by others. The assets of these trusts are not included in the accompanying consolidated statements of financial position because the beneficiaries may be changed in accordance with provisions of the trust agreements.

The Foundation has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. The trust provides for the distribution of the net income of the trust to the Foundation; however, the Foundation will never receive the principal of the trust. At the date the Foundation receives notice of a beneficial interest, a permanently restricted gift is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the Foundation's share of the underlying trust assets. Thereafter, the beneficial interest in the trust is reported at the fair value of trust's assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

Gift Annuity, Life Income Agreements, and Life Estates

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the period stipulated in the annuity contract. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted or restricted gift based on the donor's wishes. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as a gift. The estimated present value of future payments, to be made under these agreements, discounted at rates ranging from 1.00% to 8.20%, totals \$2,209,215 and \$2,376,785 at December 31, 2015 and 2014, respectively.

The Foundation's life income agreements consist of various irrevocable charitable remainder unitrusts and pooled income funds over which the Foundation acts as trustee. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event. The trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a temporarily or permanently restricted gift until such amount is received via trust distribution or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any. The liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income. Investments held under life income agreements total \$11,647,368 and \$12,439,613 at December 31, 2015 and 2014, respectively. The estimated present value of future investment income distributions to beneficiaries, discounted at rates ranging from 6.50% to 7.40% is \$5,791,063 and \$6,562,894 at December 31, 2015 and 2014, respectively.

The Foundation's life estates consist of various contributions of real estate in which the donor has retained the right to use the real estate for the remainder of their life, or the life of a specified beneficiary. The life estate assets are recorded at fair value on the date of receipt. The related liability for the right to use the real estate is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess contributed assets over the life estate liability is recorded as an unrestricted or restricted gift based on the donor's wishes. In subsequent years, the liability for future use is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the life estate, the remaining liability is removed and recognized as a gift. The estimated present value of the Foundation's liability to the donor for future use under these agreements, discounted at rates ranging from 1.20% to 6.20%, totals \$904,647 and \$982,082 at December 31, 2015 and 2014, respectively.

Net Assets

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

Unrestricted net assets are resources over which the Board of Governors has discretionary control and are available for use in general operations.

Temporarily restricted net assets are resources currently available for use for purposes or time periods specified by the donor and income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Governors.

Permanently restricted net assets consist of a beneficial interest in a perpetual trust and gifts and bequests which have been accepted with the donor-stipulation that the principal be maintained intact in perpetuity with only the income to be utilized. Some endowments require net earnings to be permanently reinvested until a certain level of investment is attained.

University Support

The Foundation funds various construction projects and provides operations support for the benefit of SDSU. Contracts for construction projects are between SDSU and the contractors, and liabilities for expenditures incurred by departments are the responsibility of SDSU. The Foundation records a liability for payment of projects and operational support expenditures when requests for reimbursement are submitted by SDSU.

Investments Held for Others

Investments held for others is primarily that portion of charitable remainder unitrusts for which the Foundation holds the asset but either the Foundation is not the beneficiary or the beneficiary designation may be changed in accordance with trust documents.

Gifts

Gifts are recognized when cash, securities, unconditional promises to give, or other assets or forgiveness of liabilities are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met and the promises become unconditional.

Gifts received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Services and Assets

Many individuals, particularly board members, have contributed significant amounts of time to the activities of the Organization without compensation. However, these services do not meet the criteria for being recorded as contributions under accounting principles generally accepted in the United States of America and, accordingly, have not been recorded.

Donated property, marketable securities, and other non-cash donations are recorded as gifts at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted use 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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Direct Investment Expenses

Management and bank fees paid to third parties were \$337,181 and \$291,981 for the years ended December 31, 2015 and 2014 respectively, and are included in general and administrative expenses on the consolidated statements of activities.

Reclassifications

Certain reclassifications of amounts previously reported within the SDSU operational and program support expenses have been reclassified to the SDSU capital projects expense line within the consolidated statements of activities to maintain consistency between years presented. The reclassifications had no impact on previously reported net assets or change in net assets.

Subsequent Events

The Organization has evaluated subsequent events through June 29, 2016, the date which these consolidated financial statements were available to be issued.

Note 2 - Fair Value of Assets and Liabilities

Fair Value Measurements

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

Level 1 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. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset and liability, and market-corroborated inputs.

Level 3 inputs are unobservable inputs related to the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

South Dakota State University Foundation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

A significant portion of the Organization's investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. This includes investments in equity securities and bonds that are held in mutual funds. Bonds that are not held in mutual funds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions. These are classified within Level 2. Management estimates the fair value of the preferred stock in a non-public company by applying market rate assumptions based on preferred stock yields, trusts held by others are valued by applying present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and the fair values of trust investments as reported by the trustees, and the fair value of the beneficial interest in perpetual trust is estimated based on the present value of the expected future cash flows. These are considered to be Level 3 measurements.

The Organization uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair value of its investments in certain international and fixed income equity funds, an equity security hedge fund, and various private equity funds. Investments valued at NAV are classified within Level 2 if the Organization has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or within the near term; otherwise, the investments are classified within Level 3.

The Organization does not have any liabilities that are measured at fair value. The following table presents the Organization's assets that are measured at fair value, except those measured at cost as identified below, on a recurring basis:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
<u>December 31, 2015</u>				
Investments				
Equity securities				
Domestic				
Large cap	\$ 28,322,354	\$ -	\$ -	\$ 28,322,354
Small and mid cap	4,303,951	-	-	4,303,951
International	30,895,334	-	-	30,895,334
Total equity securities	<u>63,521,639</u>	<u>-</u>	<u>-</u>	<u>63,521,639</u>
Bonds				
Corporate	11,434,949	239,443	-	11,674,392
Government	7,134,833	320,304	-	7,455,137
Total bonds	<u>18,569,782</u>	<u>559,747</u>	<u>-</u>	<u>19,129,529</u>
Alternative funds				
International	-	10,415,868	-	10,415,868
Fixed income	-	9,860,658	-	9,860,658
Hedge	-	-	5,351,781	5,351,781
Total alternative funds	<u>-</u>	<u>20,276,526</u>	<u>5,351,781</u>	<u>25,628,307</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Private equity funds	\$ -	\$ -	\$ 4,719,548	\$ 4,719,548
Preferred stock in non- public company	-	-	1,250,000	1,250,000
All asset funds	145,079	-	-	145,079
Certificates of deposit, at cost plus accrued interest	-	-	-	15,786,530
Property held in trust, at cost	-	-	-	3,603,350
Total investments	<u>\$ 82,236,500</u>	<u>\$ 20,836,273</u>	<u>\$ 11,321,329</u>	<u>\$ 133,783,982</u>
Trusts held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,317,906</u>	<u>\$ 1,317,906</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 919,052</u>	<u>\$ 919,052</u>
<u>December 31, 2014</u>				
Investments				
Equity securities				
Domestic				
Large cap	\$ 29,446,579	\$ -	\$ -	\$ 29,446,579
Small and mid cap	4,463,577	-	-	4,463,577
International	<u>33,214,636</u>	<u>-</u>	<u>-</u>	<u>33,214,636</u>
Total equity securities	<u>67,124,792</u>	<u>-</u>	<u>-</u>	<u>67,124,792</u>
Bonds				
Corporate	11,890,830	150,448	-	12,041,278
Government	7,046,152	463,296	-	7,509,448
Total bonds	<u>18,936,982</u>	<u>613,744</u>	<u>-</u>	<u>19,550,726</u>
Alternative funds				
International	-	10,505,832	-	10,505,832
Fixed income	-	9,886,560	-	9,886,560
Hedge	-	-	5,337,740	5,337,740
Total alternative funds	<u>-</u>	<u>20,392,392</u>	<u>5,337,740</u>	<u>25,730,132</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Private equity funds	\$ -	\$ -	\$ 3,183,385	\$ 3,183,385
Preferred stock in non- public company	-	-	1,250,000	1,250,000
All asset funds	167,733	-	-	167,733
Certificates of deposit, at cost plus accrued interest	-	-	-	12,436,812
Property held in trust, at cost	-	-	-	3,603,350
Total investments	<u>\$ 86,229,507</u>	<u>\$ 21,006,136</u>	<u>\$ 9,771,125</u>	<u>\$ 133,046,930</u>
Trusts held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,342,688</u>	<u>\$ 2,342,688</u>
Beneficial interest in perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 984,541</u>	<u>\$ 984,541</u>

The following table presents a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2015:

	Hedge	Private Equity	Preferred Stock in Non-Public Company
Balance at January 1, 2015	\$ 5,337,740	\$ 3,183,385	\$ 1,250,000
Adjustments to fair value	14,041	346,083	-
Additions	-	1,921,106	-
Withdrawals and payments	-	(731,026)	-
Balance at December 31, 2015	<u>\$ 5,351,781</u>	<u>\$ 4,719,548</u>	<u>\$ 1,250,000</u>
		Trusts Held by Others	Beneficial Interest in Perpetual Trust
Balance at January 1, 2015		\$ 2,342,688	\$ 984,541
Adjustments to fair value		(335,079)	(65,489)
Additions		550,300	-
Withdrawals and payments		(1,240,003)	-
Balance at December 31, 2015		<u>\$ 1,317,906</u>	<u>\$ 919,052</u>

South Dakota State University Foundation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Unrealized gains and losses for assets still held at December 31, 2015 are included in the consolidated statements of activities as follows:

	<u>Hedge</u>	<u>Private Equity</u>	<u>Trusts Held by Others</u>	<u>Beneficial Interest in Perpetual Trust</u>
Net realized and unrealized gains and losses	\$ 14,041	\$ 346,083	\$ -	\$ -
Change in split interest agreements	\$ -	\$ -	\$ (335,079)	\$ (65,489)

The following table presents a reconciliation of activity for assets measured at fair value based upon significant unobservable (non-market) information for 2014:

	<u>Hedge</u>	<u>Private Equity</u>	<u>Preferred Stock in Non-Public Company</u>
Balance at January 1, 2014	\$ 4,660,341	\$ 2,444,184	\$ 1,250,000
Adjustments to fair value	177,399	(6,670)	-
Additions	500,000	1,234,188	-
Withdrawals and payments	-	(488,317)	-
Balance at December 31, 2014	<u>\$ 5,337,740</u>	<u>\$ 3,183,385</u>	<u>\$ 1,250,000</u>

	<u>Trusts Held by Others</u>	<u>Beneficial Interest in Perpetual Trust</u>
Balance at January 1, 2014	\$ 2,098,267	\$ 967,684
Adjustments to fair value	244,421	16,857
Additions	-	-
Withdrawals and payments	-	-
Balance at December 31, 2014	<u>\$ 2,342,688</u>	<u>\$ 984,541</u>

Unrealized gains and losses for assets still held at December 31, 2014 are included in the consolidated statement of activities as follows:

	<u>Hedge</u>	<u>Private Equity</u>	<u>Trusts Held by Others</u>	<u>Beneficial Interest in Perpetual Trust</u>
Net realized and unrealized gains and losses	\$ 177,399	\$ (6,670)	\$ -	\$ -
Change in split interest agreements	\$ -	\$ -	\$ 244,421	\$ 16,857

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Additional information on investments in certain entities that calculate NAV per share at December 31, 2015 and 2014 is as follows:

	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative funds				
International	\$ 10,415,868	\$ -	Quarterly	95 days
Fixed income	9,860,658	-	Monthly (1)	5-10 days
Hedge	5,351,781	-	Quarterly (2)	100 days (2)
Private equity	4,719,548	11,602,096	Illiquid	None
	<u>\$ 30,347,855</u>	<u>\$ 11,602,096</u>		
	2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative funds				
International	\$ 10,505,832	\$ -	Quarterly	95 days
Fixed income	9,886,560	-	Monthly (1)	5-10 days
Hedge	5,337,740	-	Quarterly (2)	100 days (2)
Private equity	3,183,385	8,091,001	Illiquid	None
	<u>\$ 28,913,517</u>	<u>\$ 8,091,001</u>		

(1) A complete or partial withdrawal can be made on the last business day of each month.

(2) Redemption requests can be made as of each calendar quarter end. Redemption requests require 100 days prior written notice and are based on a redemption schedule that "passes through" the underlying private investment funds.

The international fund focuses on growth in global equities through private investment funds and derivative contracts. The investment is readily redeemable, subject to certain restrictions. Fair value has been estimated using the net asset value per share (practical expedient) provided by the underlying fund manager or the general partner.

Fixed income funds (two funds) focus on growth in United States and global bond markets through various fixed income securities. These investments are readily redeemable, subject to certain restrictions. Fair values have been estimated using the practical expedient provided by the underlying fund manager or the general partner.

The hedge fund focuses on growth in global private investments funds operated by various portfolio managers. The investment is redeemable, subject to certain restrictions. Fair value has been estimated using the practical expedient provided by the underlying fund manager or general partner.

Private equity funds (several funds) focus on growth in equity of United States and global securities and derivatives. These investments are not readily redeemable; however, a secondary market does exist for some of the funds. Distributions are normally made through the liquidation of the underlying assets in the funds. The terms of these investments range from 7 to 20 years. Fair values have been estimated using the practical expedient provided by the underlying fund manager or the general partner.

Fair Value of Financial Instruments Not Required to Be Reported at Fair Value

In addition to the items reported above that are recorded at fair value, the Organization has assets and liabilities that meet the definition of financial instruments, as reported in the accompanying consolidated financial statements.

The carrying amount of cash and cash equivalents; other receivables; accounts payable, accrued expenses, and other liabilities; due to SDSU – scholarships; and investments held for others approximate fair value due to the short-term nature of the items.

The carrying amounts of promises to give due in more than one year are based on the discounted net present value of the expected future cash receipts, and the carrying amounts of notes receivable are based on the discounted value of the expected future cash receipts. The carrying amount of the contract for deed is based on outstanding principal balances plus accrued interest determined from interest rates stated in the agreements, which are variable based on a function of prime. The carrying amount of gift annuities, life income agreements, and life estates is based on the discounted net present value of expected future cash payments. The carrying amount of notes payable is based on outstanding principal balances plus accrued interest determined from interest stated in the agreements, which are variable based on a function of prime or contain fixed rates that closely approximate prime. The estimated fair values of these instruments approximate their carrying amounts.

Note 3 - Promises to Give

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

	2015	2014
Receivable in less than one year	\$ 9,894,330	\$ 9,400,975
Receivable in one to five years	14,427,152	17,131,786
Receivable in more than five years	1,712,918	2,335,163
	26,034,400	28,867,924
Discount to present value (.80% to 3.50%)	(588,458)	(806,271)
	25,445,942	28,061,653
Allowance for uncollectible promises to give	(1,272,296)	(1,403,086)
	\$ 24,173,646	\$ 26,658,567

Conditional promises to give as of December 31, 2015 and 2014 of approximately \$31,058,000 and \$24,397,000, respectively, consist of promises to fund various SDSU capital projects and are restricted by specific criteria designated by the donor. However, these conditional promises do not meet the criteria for being recognized as contributions revenue under accounting principles generally accepted in the United States of America and, accordingly, have not been recognized. Recognition will occur when donor conditions have been met.

Note 4 - Notes, Contract, and Other Receivables

Notes, contract, and other receivables consist of the following:

	2015	2014
Notes receivable, net of discount of \$91,859 and \$126,235, respectively, and allowance for uncollectible notes receivable of \$89,788 and \$87,786, respectively	\$ 1,898,586	\$ 1,984,675
Contract for deed	599,495	619,924
Other receivables	69,694	159,974
	\$ 2,567,775	\$ 2,764,573

Notes receivable are comprised of two notes that are discounted using discount rates of 3.50% and 1.25%. The first note is an interest free note due from SDSU in annual installments of \$165,000 that matures in 2016. The second note was issued to the Foundation as a part of the settlement of a donor's estate. The note bears interest at 5.00% per year on the unpaid principal balance and requires annual interest payments of \$73,000 with a final payment of the outstanding principal plus accrued interest due in October 2020.

The contract for deed represents amounts due from a collateralized obligation under payment terms exceeding one year. The interest rate on the contract for deed may change from time to time; however, the contract provides for a minimum interest rate of 4.00% and a maximum interest rate of 5.00%. Payments are applied first to unpaid interest with any remainder applied to the outstanding principal balance. Other receivables consist of various operating receivables originating through the normal course of business and bear no interest.

Management determines the allowance for uncollectible notes, contract, and other receivables based on its assessment of potential bad debts, the specific circumstances of the underlying receivable, and historical experience. Management has determined that the contract for deed and other receivables are fully collectible and has not established a related allowance. Notes receivable are written off against the allowance when they are deemed uncollectible.

Note 5 - Notes Payable

Building Note Payable

The Foundation has a long-term note payable with a banking institution. The note is secured by its office building. The note bears interest at 3.95%, matures in March 2020, and requires monthly payments of principal and interest of \$11,300. The balance of the note at December 31, 2015 and 2014 is \$500,703 and \$613,803, respectively.

Bank-Qualified, Tax-Exempt Notes Payable

The Foundation entered into \$10,000,000 of bank-qualified, tax-exempt financing in an arrangement with Brookings County and a banking institution. A portion of the financing originally totaling \$9,100,000 matures June 28, 2017, with the remaining portion originally totaling \$900,000 maturing June 28, 2020. The financing was obtained to help fund the construction of several campus building projects and requires annual payments of \$979,230, plus interest based on a variable rate equal to the prime rate less 100 basis points multiplied by .65 (1.46% as of December 31, 2015 and 2014). The financing is secured by substantially all current and future assets relating to the projects and is subject to certain financial and other covenants. The aggregate balance of these notes as of December 31, 2015 and 2014 is \$3,145,388 and \$4,124,618, respectively.

The Foundation entered into \$12,000,000 of bank-qualified, tax-exempt financing in an arrangement with Brookings County and a banking institution relating to the long-term financing of the Avera Health and Science Center. The agreement requires annual payments of \$1,500,000 plus interest fixed at 4.25% and has a final maturity of July 31, 2017. The financing is secured by substantially all current and future assets related to the project and is subject to certain financial and other covenants. The balance of the note was \$2,888,194 and \$4,388,194 as of December 31, 2015 and 2014, respectively.

Operating Loans

The Farm had two revolving lines of credit totaling \$1,000,000 from a banking institution for operations and livestock purchases. The lines provided for borrowings on a short-term basis with any outstanding borrowings and accrued interest due on June 15, 2015. The lines carried variable interest rates (3.75% as of December 31, 2014), and were secured by substantially all of the income and assets of the Farm. The aggregate balance of the lines as of December 31, 2015 and 2014 was \$-0- and \$665,700, respectively.

Other Long-Term Notes Payable

The Farm's other long-term notes payable consist of four equipment notes with varying terms and combined balances of \$-0- and \$182,877 as of December 31, 2015 and 2014, respectively.

Scheduled Maturities

The estimated principal maturities by year of notes payable at December 31, 2015, are summarized as follows:

<u>Years Ending December 31,</u>	
2016	\$ 2,595,960
2017	3,398,976
2018	195,737
2019	200,897
2020	73,485
Thereafter	69,230
	\$ 6,534,285

Interest Expense

Interest expense on notes payable totaled \$254,757 and \$337,425 for 2015 and 2014, respectively, and is recorded in administrative and general expenses on the accompanying consolidated statements of activities.

Note 6 - Unrestricted Net Assets Deficit

Certain endowment investments had market values that were less than the original value of endowed gifts (Note 8). The effect of increase (decrease) in these deficiencies, approximately \$3,488,000 and \$694,000 as of December 31, 2015 and 2014, respectively, is included in interfund transfers on the accompanying consolidated statements of activities. This cumulative deficiency totaled approximately \$9,280,000 and \$5,800,000 as of December 31, 2015 and 2014, respectively. The deficiency has resulted primarily from declines in the investment market and is reported in unrestricted net assets. The Foundation plans to recover the deficiency from future endowment investment returns.

Additionally, support for various SDSU scholarships, programs and capital projects in excess of restricted gifts, including promises to give, has resulted in deficiencies that are reported in unrestricted net assets. This cumulative deficiency totaled approximately \$5,264,000 and \$5,492,000 as of December 31, 2015 and 2014, respectively. The Foundation plans to recover this unrestricted net assets deficit with future gifts as well as changes to the programmatic support provided to SDSU.

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Scholarships	\$ 7,076,757	\$ 8,540,967
SDSU operational and program support	22,846,046	24,349,907
SDSU capital projects	27,068,859	22,579,497
	\$ 56,991,662	\$ 55,470,371

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2015	2014
Purpose restrictions accomplished		
Current year expenditures		
Scholarships	\$ 3,615,337	\$ 3,247,977
SDSU operational and program support	5,641,833	5,529,596
SDSU capital projects	7,033,549	25,753,730
Other program support and direct investment expenses	4,858,609	3,334,204
Foundation administrative fee retained	2,967,958	3,098,405
Previously incurred expenditures		
Scholarships	651,609	399,321
SDSU operational and program support	95,246	1,600
SDSU capital projects	174,611	322,213
	\$ 25,038,752	\$ 41,687,046

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

	2015	2014
Scholarships	\$ 75,644,535	\$ 73,213,465
SDSU operational and program support	51,289,432	51,162,344
	\$ 126,933,967	\$ 124,375,809

Note 8 - Endowments

The Foundation's endowment consists of approximately 1,700 individual funds established for a variety of purposes. 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 Foundation's Board of Governors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation 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:

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

The changes in endowment net assets by fund type are as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year, January 1, 2015	\$ (5,792,830)	\$ 10,014,879	\$ 113,646,557	\$ 117,868,606
Endowment net assets transferred from designation change during 2015	3,598	65,048	(19,999)	48,647
Investment return				
Investment income	-	1,496,651	84,565	1,581,216
Net depreciation	-	(3,752,340)	-	(3,752,340)
Total investment return	-	(2,255,689)	84,565	(2,171,124)
Contributions	-	692,612	4,376,771	5,069,383
Appropriation of endowment assets for expenditure and transfers	(3,487,831)	(1,541,613)	-	(5,029,444)
Endowment net assets at end of year, December 31, 2015	<u>\$ (9,277,063)</u>	<u>\$ 6,975,237</u>	<u>\$ 118,087,894</u>	<u>\$ 115,786,068</u>

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	2014			
Endowment net assets at beginning of year, January 1, 2014	\$ (5,099,505)	\$ 10,737,870	\$ 109,668,408	\$ 115,306,773
Endowment net assets transferred from designation change during 2014	1,078	51,375	(32,627)	19,826
Investment return				
Investment income	-	2,271,982	84,564	2,356,546
Net appreciation	-	876,325	-	876,325
Total investment return	-	3,148,307	84,564	3,232,871
Contributions	-	665,018	3,926,212	4,591,230
Appropriation of endowment assets for expenditure and transfers	(694,403)	(4,587,691)	-	(5,282,094)
Endowment net assets at end of year, December 31, 2014	<u>\$ (5,792,830)</u>	<u>\$ 10,014,879</u>	<u>\$ 113,646,557</u>	<u>\$ 117,868,606</u>

Funds with Deficiencies

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. Deficiencies of this nature that are reported in unrestricted net assets were approximately \$9,280,000 and \$5,800,000 as of December 31, 2015 and 2014, respectively. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted gifts and from continued appropriation for certain programs that are deemed prudent by the Board of Governors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of income for the funding of programs supported by its endowment. Investment assets include those assets of donor-specific funds that the Foundation will designate for a specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that seeks both preservation of capital and growth of capital on a real return basis. Asset allocation guidelines have been established for the endowment based on liquidity needs, risk tolerance and time horizon. The rebalancing of assets will occur at least annually, or as needed to stay within ranges set forth in the Foundation's Investment Policy Statement. During the course of a complete market cycle, the total fund return objective shall be to achieve a return greater than capital market returns with lower risk, as measured by standard deviation, than a similarly weighted asset allocation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's policy of appropriating for distribution each year is determined on an as-needed basis subject to the approval of the Board of Governors. The Foundation's endowment pool is maintained primarily to provide for current and future distributions. To smooth the annual distributions, the Foundation applies a spending rate to the total endowment pool's average market value of the most recent twenty quarters. The spending rate applied to the average market value over the twenty quarters ended during December 31, 2015 and 2014 was 4.00%. In addition to the annual spending in support of endowed programs, the Foundation may assess an administrative fee not to exceed 1.60% of the current market value of the endowment for the years ended December 31, 2015 and 2014. The annual spending calculation takes into consideration the program needs of SDSU, the administrative costs of the Foundation, current market conditions, and inter-generational equity.

Note 9 - Retirement Plan

The Organization provides retirement benefits for all full-time and permanent part-time employees. There is no time of service requirement, and employees enter the plan immediately upon their hire date. The Organization is required to contribute an amount equal to each employee's contribution, up to six percent and five percent, respectively, and made contributions of \$138,568 and \$104,364 to the plan for the years ended December 31, 2015 and 2014, respectively.

Note 10 - Commitments

Capital Contributions

The Foundation has entered into contracts to invest in various professionally managed private equity funds. Selection of these funds is based on several factors, including evaluation by the Foundation's Investment Committee and professional investment consulting firm, and occurs only upon performance of due diligence procedures that help to ensure the quality of the investments. As of December 31, 2015, these contracts require the Foundation to contribute total capital of approximately \$17,715,000, plus certain allowable expenses. As of December 31, 2015, the Foundation has contributed approximately \$6,113,000. Additional contributions related to this commitment of approximately \$11,602,000 will be paid when requested by the fund managers. The contributions are included in investments on the accompanying consolidated statements of financial position.

Campus Building Projects

The Foundation has committed to fund selected construction projects on the SDSU campus. The Foundation's policy is to make such commitments when 90% of the related fundraising goal has been met. The costs of these projects are generally expensed as construction progresses. In some cases, the Foundation finances the construction costs until promise to give commitments are received. As of December 31, 2015, the Foundation has committed to provide approximately \$109,000,000 for eleven SDSU building projects, either yet to be started or already in progress. Through December 31, 2015, the Foundation has paid costs of approximately \$39,800,000 towards these projects.

Foundation Construction

As part of the overall Alumni Green Project, the Foundation has entered into a construction contract in relation to the SDSU University House Project and has committed to construction costs of approximately \$3,100,000. In addition, the Foundation has also committed to approximately \$7,000,000 for expansion of the Lohr Building. SDSU has committed to lease the University House from the Foundation upon completion under an arrangement that provides for the Foundation to receive annual payments of approximately \$58,000 for a term of 30 years.

Leases

The Organization leases certain office space and vehicles under long-term operating lease agreements. The agreements expire at varying times from 2016 to 2020.

The estimated future minimum lease payments by year are summarized as follows:

<u>Years Ending December 31,</u>	
2016	\$ 137,000
2017	125,000
2018	107,000
2019	20,000
2020	8,000
	<hr/>
	\$ 397,000
	<hr/> <hr/>

SOUTH DAKOTA STATE UNIVERSITY
FUNCTIONAL CLASS MATRIX
FYE June 30, 2016

	Personal Services	Travel	Contractual	Supplies & non-capitalized equip	Grants & Subsidies	Other & Bad Debt Expense	Depreciation & Amortization	Total
Instruction	\$ 64,459,614.35	\$ 2,098,398.11	\$ 5,577,956.10	\$ 4,277,317.72	\$ 1,394,934.17	\$ 51.62	\$ 506,878.79	\$ 78,315,150.86
Research	28,956,650.92	1,951,998.05	4,973,138.88	6,599,816.75	8,350,549.60	648.01	2,428,548.64	53,261,350.85
Public Service	16,634,732.27	947,426.86	3,560,211.29	3,538,352.81	1,212,071.99	407.62	122,745.91	26,015,948.75
Academic Support	11,165,720.80	418,004.63	833,555.38	1,073,997.84	8,845.38	80.66	632,371.96	14,132,576.65
Student Services	12,103,916.59	2,763,160.83	2,953,617.87	2,352,514.08	597,186.07	564.42	38,009.70	20,808,969.56
Institutional Support	15,984,160.26	293,563.14	5,901,328.47	785,383.26	1,620,632.19	591,387.80	414,307.80	25,590,762.92
Operations & Maint of Plan	8,698,465.27	89,965.74	6,565,448.50	1,902,678.71	544.00	306.20	15,422,503.13	32,679,911.55
Scholarships & Fellowships	393,078.55	11,321.96	4,005.80	96,000.52	6,257,053.95	-	-	6,761,460.78
Auxiliary Enterprises	4,871,428.38	33,998.55	12,987,088.24	7,051,756.98	202,964.03	4,658.34	46,441.28	25,198,335.80
Other Expenses							52,475.39	-
Depreciation (Unallocated)								52,475.39
TOTAL	\$ 163,267,767.39	\$ 8,607,837.87	\$ 43,356,350.53	\$ 27,677,818.67	\$ 19,644,781.38	\$ 598,104.67	\$ 19,664,282.60	\$ 282,816,943.11
Other & Bad Debt Expense:						\$ 72,476.50		
Other Operating Expense						6,166.87		
Interest						188,295.00		
Bad Debt Expense						331,166.30		
Loan Cancellation Expense								
Total Other & Bad Debt Expense						\$ 598,104.67		