

2013

SDSU

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 Fishback Honors College

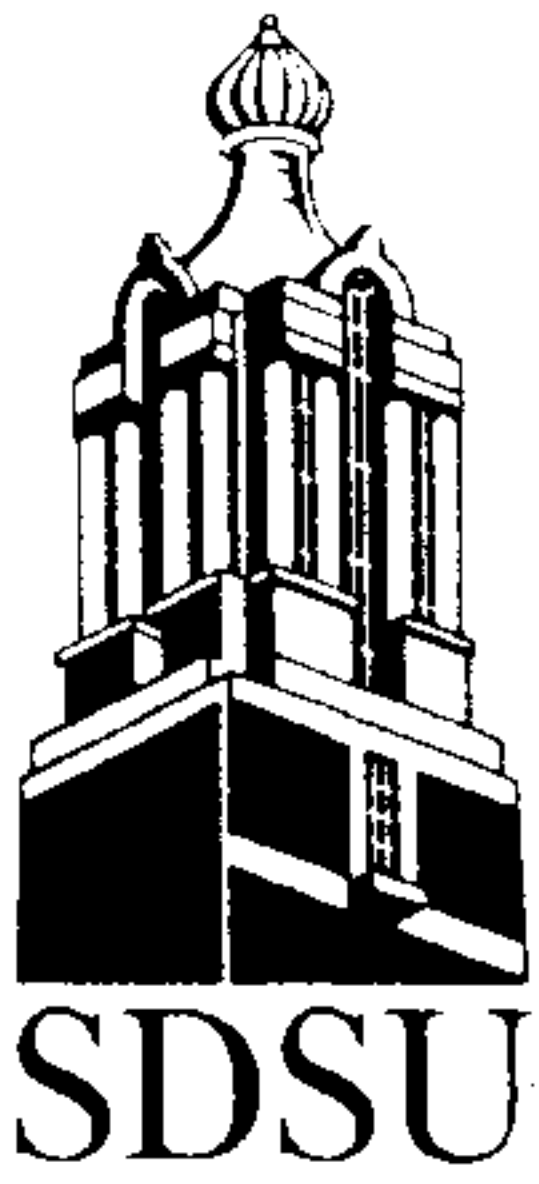
SDSU Extension

Agricultural Experiment Station

Animal Disease Research and Diagnostic Laboratory



For the year ended June 30, 2013



South Dakota
State University

Office of the President

Administration 222, Box 2201
South Dakota State University
Brookings, SD 57007-2298
Phone: 605-688-4111
Fax: 605-688-4443

April 8, 2014

Regent Dean Krogman, President
South Dakota Board of Regents
218 State Ave.
Brookings, SD 57006

Dear President Krogman:

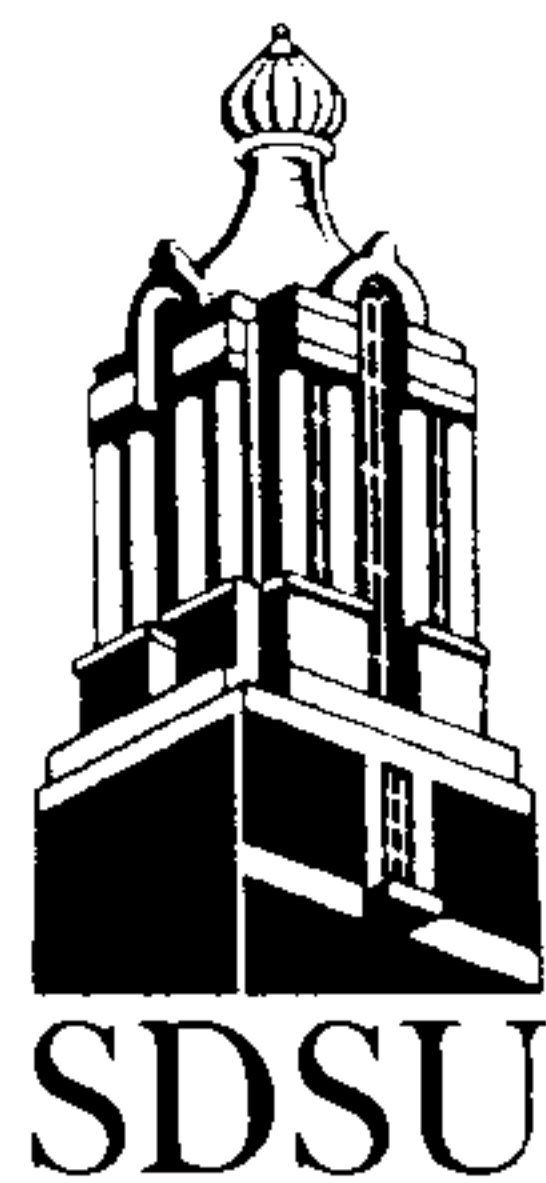
I am pleased to forward the Financial Report for South Dakota State University, covering the fiscal year 2012-2013. This report covers all phases of the financial transactions of the University for the twelve-month period ending June 30, 2013.

Copies of the report will be sent to Jack R. Warner, executive director of the South Dakota Board of Regents.

Sincerely,

David L. Chicoine, PhD.
President

Enclosure



South Dakota
State University

Department of Finance and Budget

Accounting

Administration 234, Box 2201
South Dakota State University
Brookings, SD 57007-2398
Phone: 605-688-6101
Fax: 605-688-5014

April 8, 2014

Dr. David Chicoine
President
South Dakota State University

Dear Dr. Chicoine:

The Annual Financial Report of South Dakota State University for the year ending June 30, 2013 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, 2013.

Sincerely,

Wesley Tschetter
Vice President Finance and Business/CFO

**SOUTH DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

BOARD OF REGENTS

DEAN KROGMAN, President, Brookings
RANDY SCHAEFER, Vice President, Madison
RANDY MORRIS, Secretary, Spearfish
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THE PRESIDENT OF THE UNIVERSITY

DAVID L. CHICOINE

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James D. Rogness, Senior Associate Controller
Mark D. Pust, Senior Accountant
Cathy M. Lynn, Senior Accountant
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Vicki L. Soren, Purchasing Agent
Janet M. Peterson, Shared Services Accounts Payable Manager
Arlys E. Janssen, Institutional Payroll Supervisor
Ross Pirlet, Student Accounts Specialist
Jane F. Dvorak, Student Loan Manager
Leo Gannon, Bursar/Records Management Surpervisor

**SOUTH DAKOTA STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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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, 2013. 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. As such, the financial statements of the Foundation are included in this report. 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*. 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 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 reports the difference between assets and liabilities and 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, 2013 as compared to the previous fiscal year as evidenced by:

- The University's total assets increased over the prior year by \$14.9 million. Significant changes included a decrease in Cash of \$30.3 million from the Series 2011 bond proceeds used primarily for Construction in Progress which increased by \$31.3 million primarily for the construction of four Residence Halls and University Student Union Dining Renovation. Other significant changes included increases to Buildings & Building Improvements of \$5.6 million, Land Improvements of \$3.1 million, Equipment & Other Property of \$2.3 million and Infrastructure of \$1.6 million.
- The University's largest asset is its investment in physical plant which represents \$378.38 million at June 30, 2013.
- The University's liabilities decreased by \$2.6 million primarily due to the payment of Bonds Payable of \$3.1 million and the increase in Compensated Absences of \$.5 million.
- The University's largest liability is its revenue bonds payable of \$118.9 million.
- The University's net position increased by \$17.4 million to \$295.3 million, of which \$266.3 million is invested in capital assets, net of related debt and \$7.3 million is restricted. The majority of the remaining \$21.7 million of unrestricted net position is designated for future acquisition or maintenance and repair of plant facilities.

- The University's current assets of \$67.0 million were sufficient to cover current liabilities of \$26.9 million (current ratio of 2.49).

**South Dakota State University
Condensed Statement of Net Position**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Current Assets	\$ 67,030,662.76	\$ 95,528,706.35
Non-Current Assets	<u>390,097,068.45</u>	<u>346,736,501.31</u>
Total Assets	<u>\$ 457,127,731.21</u>	<u>\$ 442,265,207.66</u>
LIABILITIES		
Current Liabilities	\$ 26,949,758.47	\$ 25,821,662.65
Non-Current Liabilities	<u>134,908,904.10</u>	<u>138,613,183.16</u>
Total Liabilities	<u>\$ 161,858,662.57</u>	<u>\$ 164,434,845.81</u>
NET POSITION		
Invested in Capital, Net of Related Debt	\$ 266,251,358.67	\$ 259,775,313.36
Restricted	7,330,524.85	7,738,958.20
Unrestricted	<u>21,687,185.12</u>	<u>10,316,090.29</u>
Total Net Position	<u>\$ 295,269,068.64</u>	<u>\$ 277,830,361.85</u>

- The most significant 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 decreased by \$3.5 million compared to the prior year. Operating revenues saw significant increases to Tuition and Fees of \$3.7 million, Private Grants & Contracts of \$1.2 million and Auxiliaries of \$.7 million. Operating revenues saw significant decreases to Federal Grants & Contracts of \$6.5 million and General Sales & Services of \$2.3 million.

- State support tuition rates increased by 13.6% while self support tuition rates increased by 4.3% which resulted in an increase of tuition revenue of \$3.7 million.
- The increase of \$1.2 million in Private Grants & Contracts was caused primarily by the addition of many small grants in FY13.
- The increase of \$.7 million for Auxiliaries was caused by an increase in Residential Life revenue of \$.5 million and an increase in Food Service revenue of \$.2 million.
- Federal Grants & Contracts decreased by \$6.5 million. The largest decreases were to federal grants from the National Institute of Health of \$3.3 million and decreases to grants from Department of Education of \$1.7 million and decreases to grants from the American Recovery and Reinvestment Act (ARRA) of \$1.5 million.
- Large decreases to General Sales & Services included a \$1.6 million decrease to Wheat License Income and a \$.4 million decrease in Testing Services for the Animal Disease Research and Diagnostic Lab and a \$.2 million decrease in Testing Services for Olson Biochemistry Lab which ceased operations in FY12.
- Overall Operating Expenses only increased by \$.6 million compared to the prior year. However, there were some very significant changes from the prior year within expense classifications. Personal Services increased by \$5.5 million and Contractual Services increased by \$1.2 million and Depreciation increased by \$.8 million. Grants & Subsidies decreased by \$4.1 million and Supplies & Materials decreased by \$2.2 million and Travel decreased by \$.5 million.
- The operating loss totaled \$64.0 million which was funded primarily by State General Fund Appropriations of \$59.4 million and Federal Appropriations of \$8.2 million.
- State General Fund Appropriations were the most significant non-operating revenue at \$59.4 million which was a \$3.4 million increase from FY12.
- The University received \$8.2 million in Federal Appropriations for FY13 which was a decrease of \$1.2 million from the previous year. The largest decreases in Federal Appropriations came from federal Hatch funding which decreased by \$.8 million and from federal Smith Lever funding which decreased by \$.3 million.
- The University received revenue from the Higher Education Facilities Fund of \$4.0 million which was primarily used for the Intramural Building, Chilled Water Loop Extension, Facilities and Services Building Shops Remodel, Physical Plant Office Renovations, Administration Masonry Repair & Tuckpointing, and various other smaller construction projects.
- The University received \$11.3 million in Capital Grants & Contracts for FY13 primarily from the SDSU Foundation and from various federal grants & contracts which was used for the Dairy Micro Plant addition, the Indoor Practice Facility, the

Electrical Engineering and Computer Science Building addition & other smaller building & renovation projects around campus. For FY13, an additional \$2.0 million was received in bond proceeds from the SD Building Authority which was used for the Central Heating Plant Boiler Replacement & Boiler Upgrades.

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Total Operating Revenues	\$ 195,424,343.32	\$ 198,883,134.48
Total Operating Expenses	<u>259,389,997.77</u>	<u>258,759,002.41</u>
Operating Loss	(63,965,654.45)	(59,875,867.93)
Non-Operating Revenues	64,585,978.02	62,827,530.45
Other Revenues	<u>16,750,564.10</u>	<u>14,735,797.14</u>
Total Increase in Net Assets	\$ 17,370,887.67	\$ 17,687,459.66
Net Assets, Beginning of Year	277,830,361.85	260,703,484.64
Prior Period Adjustments	<u>67,819.12</u>	<u>(560,582.45)</u>
Net Assets, End of Year	<u>\$ 295,269,068.64</u>	<u>\$ 277,830,361.85</u>

- Major sources of operating cash included student tuition, fees and auxiliaries of \$101.5 million, grants and contracts of \$67.7 million and general sales & services of \$23.9 million. The largest use of operating cash was payments to employees of \$150.1 million.
- The most significant source of non-capital financial activities cash was State General Fund appropriations of \$59.4 million.
- The most significant sources of capital related financing activities cash were Capital Grants & Contracts of \$11.3 million and bond proceeds received from the SD Building Authority of \$2.4 million for capital purposes. The most significant use of capital related financing activities cash was the Purchase of Capital Assets of \$61.1 million which was predominately for construction expenditures for buildings & improvements.

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Cash Provided/(Used) by:		
Operating Activities	\$ (47,216,077.42)	\$ (40,372,503.94)
Non-Capital Financial Activities	68,637,613.53	65,824,295.10
Capital Related Financing Activities	(52,800,579.28)	31,140,622.28
Investing Activities	<u>1,030,928.63</u>	<u>698,584.44</u>
Net Increase (Decrease) in Cash	(30,348,114.54)	57,290,997.88
Cash, Beginning of Year	<u>68,935,797.00</u>	<u>11,644,799.12</u>
Cash, End of Year	<u>\$ 38,587,682.46</u>	<u>\$ 68,935,797.00</u>

Outlook for FY14 and Beyond

The ability of the University to fulfill its educational mission and execute its strategic plans is positively influenced by stable enrollment. Fall 2013 total full-time equivalent enrollment increased slightly from 10,153 in Fall 2012 to 10,220 in Fall 2013. Fall 2013 headcount enrollment was at 12,554 compared to 12,583 for Fall 2012. It is projected that enrollment will continue to remain stable for FY15.

Reliance on State support remains an important non-operating revenue source for the University. For FY14, 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 increases in health care costs, compensation, and utilities.

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 renovation of residence halls, renovation and expansion of food service facilities, renovations of the Central Heating Plant, construction of an indoor practice facility, construction of an Architecture, Math and Engineering building and construction of a new football stadium.

The University has a 10 year Capital Plan which includes the construction of a new headhouse and greenhouses; architecture, mathematics and engineering facility; Visual Arts facility expansion; Performing Arts Center expansion and the construction of a cow-calf research unit.

South Dakota State University maintains a positive outlook for FY14 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, 2013**

	<u>Current Year</u>	<u>Prior Year</u>
ASSETS:		
Current Assets:		
Cash on Deposit - State Treasurer	\$ 31,220,389.71	\$ 62,803,828.75
Cash & Cash Equivalents	7,301,501.97	4,835,818.07
Accounts Receivable - Student	3,173,257.96	3,255,060.08
Accounts Receivable - Dept. Sales	3,253,016.43	2,417,709.02
Student Notes Receivable (Net of Allowance of \$65,223.06 2013 & \$78,907.56 2012)	1,938,071.10	2,038,408.37
Interest Receivable	715,088.83	1,031,300.30
Prepaid Expenses	990,116.53	500,507.91
Inventories	5,101,021.35	5,276,452.31
Due From Federal Sources	11,919,398.04	11,286,732.26
Due From Primary Government	1,014,678.29	951,600.97
Due From Other Component Units	203,271.56	930,448.86
Investments, Carried at Market	114,662.17	114,650.63
Unamortized Cost of Issuance	86,188.82	86,188.82
Total Current Assets	\$ 67,030,662.76	\$ 95,528,706.35
Non-Current Assets:		
Restricted Cash on Deposit - State Treasurer	\$ 65,790.78	\$ 1,296,150.18
Student Notes Receivable (Net of Allowance of \$323,979.94 2013 & \$373,645.44 2012)	9,643,279.60	9,383,727.57
UnRestricted Long Term Investments	280,692.54	270,811.83
Unamortized Cost of Issuance	1,438,307.51	1,524,496.33
Land	9,135,997.70	9,002,997.70
Construction in Progress	63,576,883.81	32,258,194.34
Buildings & Bldg Impr (Net of Accum Depr \$118,262,601.11 2013; \$108,490,801.11 2012)	247,536,539.78	241,942,480.21
Land Improvements (Net of Accum Depr of \$5,756,600.05 2013 & \$5,155,596.05 2012)	7,763,976.09	4,629,034.98
Infrastructure (Net of Accum Depr of \$5,177,531.87 2013 & \$4,643,401.87 2012)	13,926,916.68	12,290,200.53
Equipment & Other Property (Net of Accum Depr \$72,447,527.52 2013 & \$67,207,499.33 2012)	27,787,631.66	25,459,058.99
Museum and Art Collections	8,656,860.50	8,339,858.50
Intangible Assets (Net of Accum Amort \$16,291.65 2013 & \$5,993.30 2012)	86,691.80	96,990.15
Other Assets	197,500.00	242,500.00
Total Non-Current Assets	\$ 390,097,068.45	\$ 346,736,501.31
TOTAL ASSETS	\$ 457,127,731.21	\$ 442,265,207.66

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013**

	Current Year	Prior Year
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 8,224,329.01	\$ 8,374,390.76
Accrued Wages & Benefits	2,824,267.30	2,993,384.31
Accrued Interest Payable	1,402,061.51	1,429,006.01
Due To Primary Government	621,675.77	357,692.12
Due To Other Component Units	324,139.23	318,728.34
Student Deposits	458,549.49	482,276.61
Compensated Absences Payable	4,433,208.47	5,107,510.72
Notes Payable	165,000.00	165,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	4,664,768.73	3,054,768.73
Obligations Under Capital Leases	37,087.26	35,471.76
Deferred Revenue	3,539,828.77	3,147,495.48
Agency Funds - Funds Held for Others	254,842.93	355,937.81
Total Current Liabilities	\$ 26,949,758.47	\$ 25,821,662.65
Non-Current Liabilities:		
Compensated Absences Payable	\$ 9,755,048.54	\$ 8,624,389.61
Notes Payable	495,000.00	660,000.00
Bonds Payable (See Note XV of Notes to Financial Statements)	114,212,419.14	118,877,187.87
Obligations Under Capital Leases	-	37,087.26
Federal Capital Contribution - Student Loans	10,446,436.42	10,414,518.42
Total Non-Current Liabilities	\$ 134,908,904.10	\$ 138,613,183.16
TOTAL LIABILITIES	\$ 161,858,662.57	\$ 164,434,845.81
NET POSITION:		
Invested in Capital, Net of Related Debt	\$ 266,251,358.67	\$ 259,775,313.36
Restricted Non-Expendable:		
Loans	2,406,349.88	2,517,465.04
Restricted Expendable:		
Scholarships and fellowships	185,724.70	84,752.13
Research	1,676,957.07	1,405,737.30
Debt Service	65,790.78	1,296,150.18
Renewals & Replacements	2,963,202.42	2,427,325.53
Other	32,500.00	7,528.02
Unrestricted	21,687,185.12	10,316,090.29
TOTAL NET POSITION	\$ 295,269,068.64	\$ 277,830,361.85
TOTAL LIABILITIES & NET POSITION	\$ 457,127,731.21	\$ 442,265,207.66

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, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 6,247,016	\$ 7,037,746
Investments (Note 2 and Note 15)	104,491,163	90,976,548
Receivables		
Pledges, net of allowance and discount (Note 4)	31,565,547	31,350,506
Trusts held by others	1,545,058	1,366,011
Notes, contracts, and other receivables	1,561,954	1,859,241
Total receivables	34,672,559	34,575,758
Property, net of accumulated depreciation	5,188,244	4,661,711
Property held for investment	6,423,742	3,544,484
Other assets		
Prepaid SDSU support (Note 1)	1,194,448	1,493,060
Prepaid expenses, inventory, and other assets	1,100,114	1,030,281
Cash surrender value of life insurance (Note 5)	386,460	364,287
Life estates	1,257,155	1,157,155
Beneficial interest in perpetual trust (Note 6)	837,415	779,475
Total other assets	4,775,592	4,824,258
	\$ 161,798,316	\$ 145,620,505
Liabilities		
Accounts payable and accrued expenses	\$ 1,353,391	\$ 4,795,560
Due to SDSU - scholarships	1,595,408	2,244,336
Investments held for others (Note 7)	252,561	261,792
Gift annuities and life income agreements (Note 8)	8,848,794	8,784,075
Notes payable (Note 9)	14,840,865	16,388,086
Total liabilities	26,891,019	32,473,849
Net Assets (Deficit)		
Unrestricted (Note 14)	(14,435,814)	(19,377,638)
Temporarily restricted (Note 1)	38,956,684	27,880,008
Permanently restricted (Note 1)	110,386,427	104,644,286
Total net assets	134,907,297	113,146,656
	\$ 161,798,316	\$ 145,620,505

See Notes to Consolidated Financial Statements

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2013**

	Current Year	Prior Year
OPERATING REVENUES:		
Tuition:		
State-Support Tuition Allocation	\$ 31,345,747.96	\$ 28,851,542.58
Self-Support Tuition	15,168,808.20	14,003,701.23
	\$ 46,514,556.16	\$ 42,855,243.81
Fees:		
University Support Fee	\$ 9,437,198.50	\$ 10,680,169.40
Salary Competitiveness Fee Allocation	7,750,154.35	8,183,828.28
General Activity Fee	6,405,216.33	6,252,412.68
Salary Enhancement Fees	2,314.44	2,996.40
Special Discipline Fees	9,796,136.58	8,938,430.38
Lab Fees	1,242,746.29	1,195,377.14
Vehicle Registration Fees	593,530.20	757,073.03
Delivery Fees	1,991,342.37	1,876,924.66
Technology Fees	3,137,970.17	2,478,894.28
Other Fees	133,120.03	96,339.39
Student Charges	1,267,587.30	1,093,028.19
	\$ 41,757,316.56	\$ 41,555,473.83
Total Tuition and Fees	\$ 88,271,872.72	\$ 84,410,717.64
Less Student Financial Assistance	(11,713,901.39)	(11,537,637.58)
	\$ 76,557,971.33	\$ 72,873,080.06
Auxiliaries (Net of Student Financial Assistance of \$4,160,744.75 2013 & \$4,187,641.93 2012)	27,186,467.48	26,447,884.21
General Sales & Services	24,000,923.30	26,288,330.66
Federal Grants & Contracts	49,606,202.95	56,119,747.32
State Grants & Contracts	5,200,479.51	5,384,170.66
Private & Other Grants & Contracts	12,552,123.27	11,371,858.31
Student Loan Interest	213,827.05	232,495.32
Loan Cancellation Reimbursement	-	-
Other Revenues & Additions	106,348.43	165,567.94
	\$ 195,424,343.32	\$ 198,883,134.48

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2013**

	Current Year	Prior Year
OPERATING EXPENSES:		
Personal Services (Salaries & Benefits)	\$ 150,424,880.33	\$ 144,972,595.99
Travel	7,250,828.49	7,788,166.38
Contractual Services	37,057,519.68	35,856,429.25
Supplies & Materials	28,046,509.57	30,267,311.88
Grants & Subsidies	19,568,188.39	23,645,666.56
Interest	900.29	1,456.97
Loan Cancellation Expense	374,484.80	389,922.64
Bad Debts	5,875.00	713.49
Depreciation	16,579,465.85	15,754,665.95
Amortization of Intangibles	10,298.35	5,993.30
Other Operating Expense	71,047.02	76,080.00
	\$ 259,389,997.77	\$ 258,759,002.41
OPERATING LOSS	\$ (63,965,654.45)	\$ (59,875,867.93)
NON-OPERATING REVENUES (EXPENSES):		
General Fund Appropriations	\$ 59,408,847.00	\$ 56,024,888.00
School & Public Lands	617,502.26	614,398.03
Federal Fund Appropriations	8,166,319.18	9,363,852.14
Higher Education Facilities Fund	1,156,346.22	935,263.33
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Investment Income	714,732.14	1,030,502.03
Other Non-Operating Revenue & Additions	29,764.33	22,277.41
Interest Expense related to Capital Assets	(5,643,808.63)	(4,798,768.23)
Loss on Disposal of Capital Assets	(113,721.04)	(614,780.48)
Unrealized Gain (Loss) on Investments	(3.44)	(101.78)
	\$ 64,585,978.02	\$ 62,827,530.45
NET NON-OPERATING REVENUES	\$ 64,585,978.02	\$ 62,827,530.45
INCOME BEFORE OTHER REVENUES, EXPENSES & OTHER CHANGES	\$ 620,323.57	\$ 2,951,662.52
Capital Grants & Contracts	11,313,241.56	7,012,350.07
SD Building Authority Bond Proceeds	1,951,993.63	4,956,558.84
BAB Subsidy	618,010.38	627,871.61
Higher Education Facilities Fund	2,867,318.53	2,139,016.62
	\$ 17,370,887.67	\$ 17,687,459.66
NET INCREASE IN NET POSITION	\$ 17,370,887.67	\$ 17,687,459.66
NET POSITION, BEGINNING OF YEAR	277,830,361.85	260,703,484.64
Prior Period Adjustments	67,819.12	(560,582.45)
	\$ 295,269,068.64	\$ 277,830,361.85
NET POSITION, END OF YEAR	\$ 295,269,068.64	\$ 277,830,361.85

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

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Support, and Gains				
Gifts	\$ 79,868	\$ 20,466,969	\$ 4,628,199	\$ 25,175,036
Investment income	500,700	1,958,521	136,304	2,595,525
Net realized and unrealized gain (loss)	37,207	6,159,389	213,754	6,410,350
Change in split interest agreements	-	(16,780)	710,389	693,609
Other revenue				
Telemarketing contract	300,000	-	-	300,000
Related organizations	91,673	2,055,365	-	2,147,038
Professional fundraising	150,000	-	-	150,000
Other	60,574	1,233,199	3,862	1,297,635
	<u>1,220,022</u>	<u>31,856,663</u>	<u>5,692,508</u>	<u>38,769,193</u>
Net assets released from restrictions (Note 10)	<u>17,266,844</u>	<u>(17,109,853)</u>	<u>(156,991)</u>	<u>-</u>
Total revenue, support, and gains	<u>18,486,866</u>	<u>14,746,810</u>	<u>5,535,517</u>	<u>38,769,193</u>
Expenses				
Program Services				
SDSU scholarships	2,980,594	-	-	2,980,594
SDSU operational and program support	4,558,400	-	-	4,558,400
SDSU capital projects	3,075,014	-	-	3,075,014
Grants to others	175,244	-	-	175,244
Related organizations	2,114,981	-	-	2,114,981
	<u>12,904,233</u>	<u>-</u>	<u>-</u>	<u>12,904,233</u>
Support Services				
Administrative and general expenses	4,104,319	-	-	4,104,319
	<u>17,008,552</u>	<u>-</u>	<u>-</u>	<u>17,008,552</u>
Interfund Transfers (Note 14)	<u>3,463,510</u>	<u>(3,670,134)</u>	<u>206,624</u>	<u>-</u>
Change in Net Assets	<u>\$ 4,941,824</u>	<u>\$ 11,076,676</u>	<u>\$ 5,742,141</u>	<u>\$ 21,760,641</u>

South Dakota State University Foundation
Consolidated Statements of Activities
Years Ended December 31, 2012 and 2011

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,124,573	\$ 15,872,744	\$ 7,471,051	\$ 24,468,368
604,622	1,934,172	140,215	2,679,009
90,520	(2,326,921)	(110,180)	(2,346,581)
28,644	(14,914)	(788,472)	(774,742)
300,000	-	-	300,000
297,384	2,014,317	-	2,311,701
150,000	45,000	-	195,000
7,119	639,240	20,961	667,320
<u>2,602,862</u>	<u>18,163,638</u>	<u>6,733,575</u>	<u>27,500,075</u>
<u>28,587,396</u>	<u>(28,489,231)</u>	<u>(98,165)</u>	<u>-</u>
<u>31,190,258</u>	<u>(10,325,593)</u>	<u>6,635,410</u>	<u>27,500,075</u>
4,943,458	-	-	4,943,458
4,264,225	-	-	4,264,225
16,129,763	-	-	16,129,763
118,902	-	-	118,902
1,980,955	-	-	1,980,955
<u>27,437,303</u>	<u>-</u>	<u>-</u>	<u>27,437,303</u>
<u>3,962,435</u>	<u>-</u>	<u>-</u>	<u>3,962,435</u>
<u>31,399,738</u>	<u>-</u>	<u>-</u>	<u>31,399,738</u>
<u>(2,986,675)</u>	<u>2,954,318</u>	<u>32,357</u>	<u>-</u>
<u>\$ (3,196,155)</u>	<u>\$ (7,371,275)</u>	<u>\$ 6,667,767</u>	<u>\$ (3,899,663)</u>

South Dakota State University Foundation
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets (Deficit) December 31, 2010	\$ (16,181,483)	\$ 35,251,283	\$ 97,976,519	\$ 117,046,319
Change in net assets	<u>(3,196,155)</u>	<u>(7,371,275)</u>	<u>6,667,767</u>	<u>(3,899,663)</u>
Net Assets (Deficit) December 31, 2011	(19,377,638)	27,880,008	104,644,286	113,146,656
Change in net assets	<u>4,941,824</u>	<u>11,076,676</u>	<u>5,742,141</u>	<u>21,760,641</u>
Net Assets (Deficit) December 31, 2012	<u>\$ (14,435,814)</u>	<u>\$ 38,956,684</u>	<u>\$ 110,386,427</u>	<u>\$ 134,907,297</u>

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Current Year	Prior Year
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition, Fees, & Auxiliaries (Net of Scholarship Allowance & Discounts)	\$ 101,517,830.19	\$ 97,134,090.16
General Sales & Services	23,921,783.40	26,303,196.09
Federal Grants & Contracts	50,132,844.65	59,587,492.71
State Grants & Contracts	5,360,247.51	5,118,590.35
Private Grants & Contracts	12,253,402.69	11,813,171.00
Loans Collected from Students	1,803,136.42	1,897,713.58
Student Loan Interest	213,827.05	232,495.32
Other Receipts	37,198.43	61,852.22
Personal Services (salaries & benefits)	(150,141,630.81)	(146,358,627.90)
Travel	(7,272,409.63)	(7,692,710.70)
Contractual Services	(37,083,830.61)	(35,545,372.29)
Supplies & Materials	(28,264,119.21)	(29,381,066.42)
Grants & Subsidies	(19,622,410.19)	(23,465,791.09)
Interest	(900.29)	(1,456.97)
Other Payments	(71,047.02)	(76,080.00)
NET CASH USED BY OPERATING ACTIVITIES	\$ (47,216,077.42)	\$ (40,372,503.94)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
General Fund Appropriations	\$ 59,408,847.00	\$ 56,024,888.00
School & Public Lands	617,502.26	614,398.03
Federal Fund Appropriations	6,749,090.50	7,718,455.00
Federal Loans Disbursements (Stafford & PLUS)	(58,574,243.00)	(60,840,331.00)
Federal Loan Receipts (Stafford & PLUS)	58,574,243.00	60,840,331.00
Higher Education Facilities Fund	1,156,346.22	935,263.33
Endo/Ecto Parasiticide Tax	250,000.00	250,000.00
Federal Capital Contribution - Student Loans	31,918.00	88,006.00
Net Change in Funds Held for Others	404,025.93	179,188.37
Other Non-Operating Revenues & Additions	19,883.62	14,096.37
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCIAL ACTIVITIES	\$ 68,637,613.53	\$ 65,824,295.10
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Higher Education Facilities Fund	\$ 2,867,318.53	\$ 2,139,016.62
SD Building Authority Bond Proceeds	2,371,485.58	4,702,836.35
Purchase of Capital Assets	(61,103,440.51)	(37,002,392.76)
Proceeds from Bond Issue	-	59,936,851.11
Principal Payments on Bonds & Capital Leases	(2,955,471.76)	(2,868,930.43)
Interest Payments on Bonds & Capital Leases	(5,719,333.04)	(4,187,966.90)
Notes Payable Financing Agreement	(165,000.00)	(165,000.00)
BAB Subsidy	618,010.38	627,871.61
Capital Grants & Contracts	11,285,851.54	7,958,336.68
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (52,800,579.28)	\$ 31,140,622.28
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	\$ 1,030,932.07	\$ 698,686.22
Unrealized Gain (Loss) on Investments	(3.44)	(101.78)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 1,030,928.63	\$ 698,584.44
Net (Decrease) in Cash	\$ (30,348,114.54)	\$ 57,290,997.88
Cash - Beginning of the year	68,935,797.00	11,644,799.12
Cash - End of the year	<u>\$ 38,587,682.46</u>	<u>\$ 68,935,797.00</u>

**SOUTH DAKOTA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Current Year	Prior Year
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	\$ (63,965,654.45)	\$ (59,875,867.93)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	16,579,465.85	15,754,665.95
Amortization of Intangibles	10,298.35	5,993.30
Bad Debt Expense	5,875.00	713.49
Loan Cancellation Expense	374,484.80	389,922.64
Change in Assets and Liabilities:		
Accounts Receivable Students	81,802.12	(166,237.91)
Accounts Receivable - Dept	(643,548.35)	648,232.23
Prepaid Expenses	(287,605.50)	101,812.30
Notes Receivable	(541,729.13)	(343,755.81)
Due From Federal Sources	692,595.79	3,363,248.15
Due From Primary Government	(63,077.32)	21,163.72
Due From Other Component Units	307,685.35	(207,095.64)
Inventories	175,430.96	592,869.96
Intangible Assets	-	307,162.85
Other Assets	45,000.00	45,000.00
Accounts Payable	(317,013.51)	263,361.95
Accrued Wages and Benefits	(173,107.16)	(243,288.37)
Due To Primary Government	31,839.65	76,094.54
Due To Other Component Units	5,410.89	30,136.31
Compensated Absences Payable	456,356.68	(1,142,743.54)
Deferred Revenue	9,412.56	6,107.87
NET CASH USED BY OPERATING ACTIVITIES	\$ (47,216,077.42)	\$ (40,372,503.94)
Non-Cash Investing, Capital and Financing Activities:		
Loss on Disposal of Fixed Assets	\$ (113,721.04)	\$ (614,780.48)

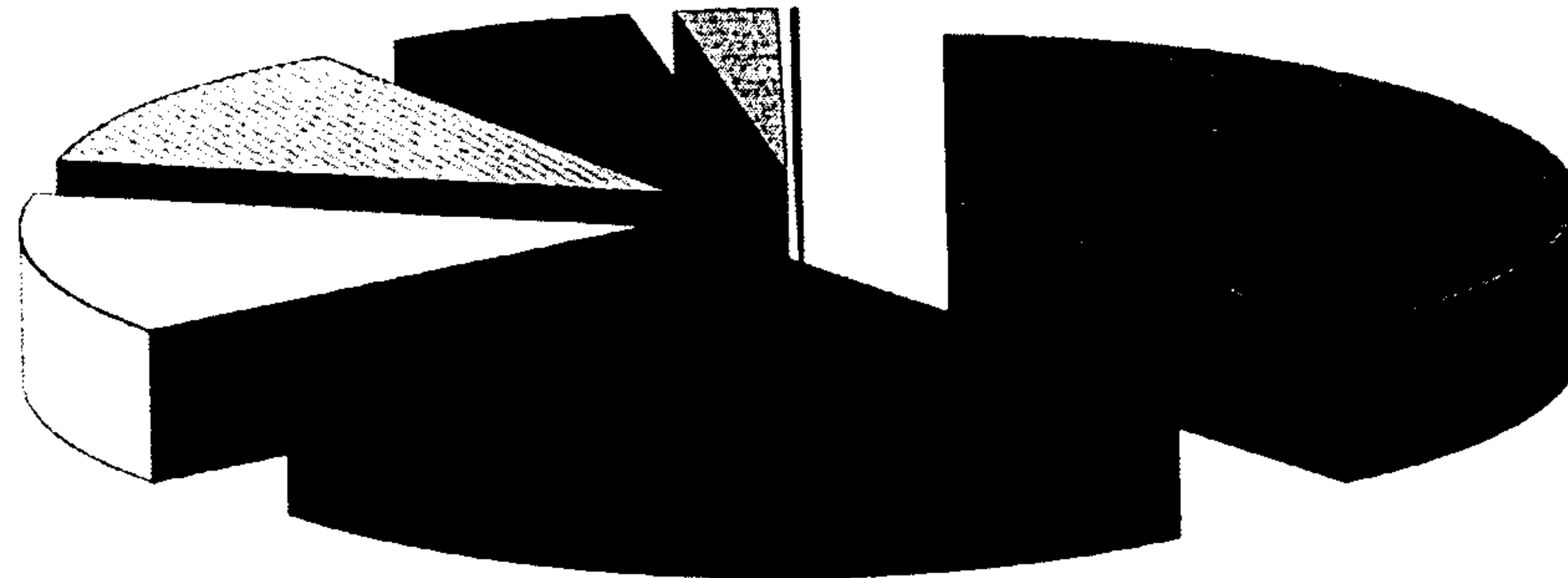
The accompanying notes to the South Dakota State University financial statements are an integral part of this statement.

South Dakota State University Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 21,760,641	\$ (3,899,663)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	327,757	281,523
Net realized and unrealized (gain) loss on investments	(6,410,350)	2,346,581
Loss (gain) on the disposal of property and property held for investment	289,061	(21,336)
Non-cash gifts	(5,428,721)	(1,067,777)
Provision for bad debts	42,359	(75,063)
Permanently restricted contributions	(711,598)	(7,014,956)
Changes in assets and liabilities		
Pledges receivable	(3,470,843)	2,950,264
Trusts held by others	(179,047)	244,362
Prepaid expenses, inventory, and other assets	(69,833)	(72,726)
Prepaid SDSU support	298,612	298,612
Cash surrender value of life insurance	(22,173)	(43,143)
Life estates	(100,000)	33,000
Beneficial interest in perpetual trust	(57,940)	50,942
Accounts payable and accrued expenses	(3,442,169)	3,465,569
Due to SDSU - scholarships	(648,928)	(105,350)
Investments held for others	(9,231)	(29,359)
Gift annuities and life income agreements	64,719	(431,412)
Net Cash from (used for) Operating Activities	2,232,316	(3,089,932)
Investing Activities		
Proceeds from the sale of investments	22,686,459	181,888,298
Purchases of investments	(25,418,789)	(180,466,308)
Proceeds from the sale of property and property held for investment	1,286,378	1,204,508
Purchases of property and property held for investment	(4,217,907)	(176,203)
Receipts on notes, contracts, and other receivables	297,287	207,677
Net Cash (used for) from Investing Activities	(5,366,572)	2,657,972
Financing Activities		
Proceeds from notes payable	997,039	1,705,000
Payments on notes payable	(2,578,554)	(6,257,076)
Proceeds from permanently restricted contributions	3,925,041	6,288,363
Net Cash from Financing Activities	2,343,526	1,736,287
Net Change in Cash and Cash Equivalents	(790,730)	1,304,327
Cash and Cash Equivalents, Beginning of Year	7,037,746	5,733,419
Cash and Cash Equivalents, End of Year	\$ 6,247,016	\$ 7,037,746

See Notes to Consolidated Financial Statements

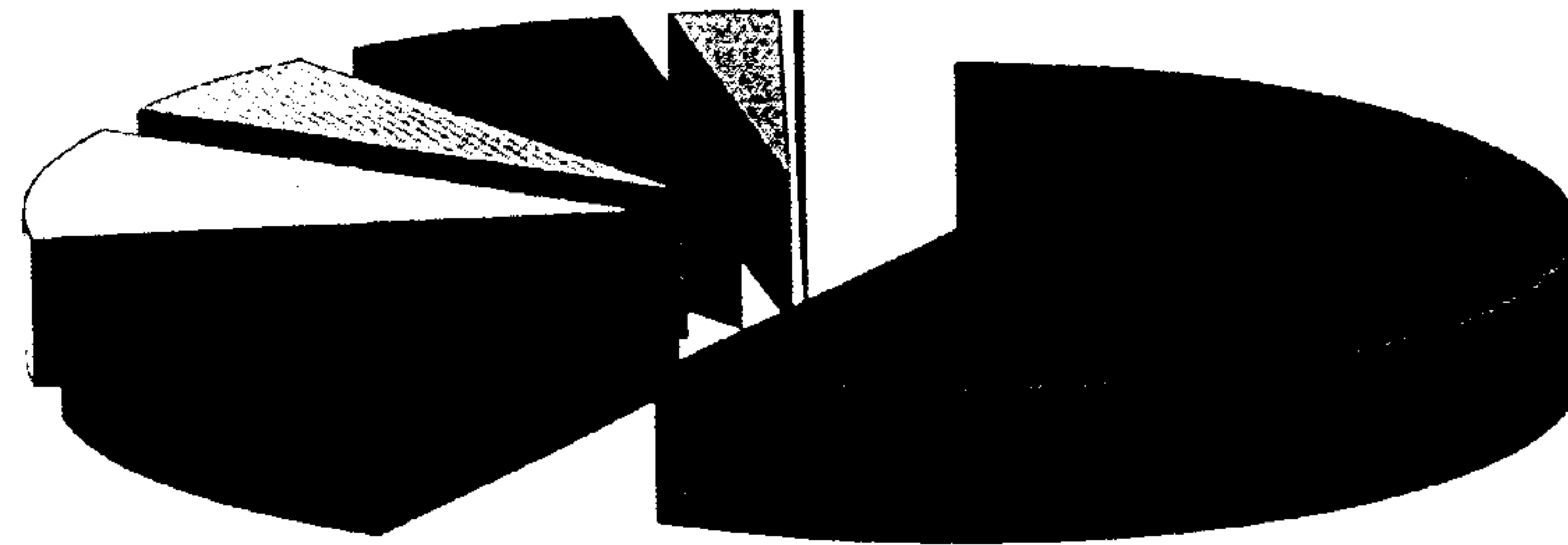
OPERATING REVENUES
\$195,424,343
SDSU & ATTACHED AGENCIES



- Tuition & Fees - \$76,557,971
- Federal Grants & Contracts - \$49,606,203
- Auxiliaries - \$27,186,468
- General Sales & Services - \$24,000,923
- Private & Other Grants & Contracts - \$12,552,123
- State Grants & Contracts - \$5,200,480
- Student Loan Interest - \$213,827
- Other Revenues & Additions - \$106,348

	FY13	FY12	INCREASE (DECREASE)
Tuition & Fees	76,557,971	72,873,080	3,684,891
Auxiliaries	27,186,468	26,447,884	738,584
General Sales & Services	24,000,923	26,288,331	(2,287,408)
Federal Grants & Contracts	49,606,203	56,119,747	(6,513,544)
State Grants & Contracts	5,200,480	5,384,171	(183,691)
Private & Other Grants & Contracts	12,552,123	11,371,858	1,180,265
Student Loan Interest	213,827	232,495	(18,668)
Other Revenues & Additions	106,348	165,568	(59,220)
TOTAL OPERATING REVENUE	195,424,343	198,883,134	(3,458,791)

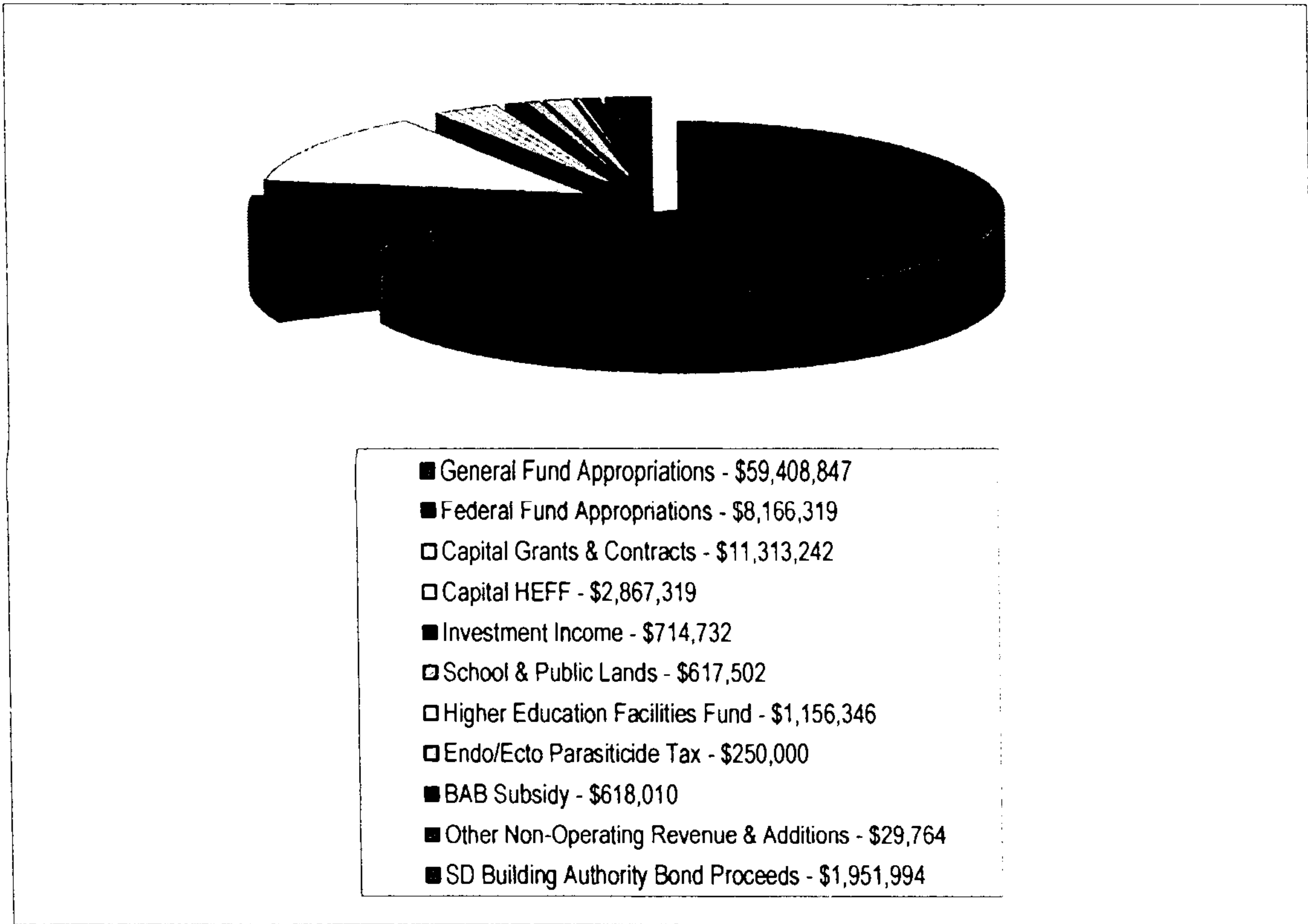
OPERATING EXPENSES
\$259,389,998
SDSU & ATTACHED AGENCIES



■ Personal Services - \$150,424,880
■ Contractual Services - \$37,057,520
□ Supplies & Materials - \$28,046,510
□ Depreciation - \$16,579,466
■ Grants & Subsidies - \$19,568,188
□ Travel - \$7,250,829
□ Loan Cancellation Expense - \$374,485
□ Bad Debts - \$5,875
■ Interest - \$900
■ Amortization of Intangibles - \$10,298
■ Other Operating Expenses - \$71,047

	FY13	FY12	INCREASE (DECREASE)
Personal Services	150,424,880	144,972,596	5,452,284
Travel	7,250,829	7,788,166	(537,337)
Contractual Services	37,057,520	35,856,429	1,201,091
Supplies & Materials	28,046,510	30,267,312	(2,220,802)
Grants & Subsidies	19,568,188	23,645,667	(4,077,479)
Loan Cancellation Expense	374,485	389,923	(15,438)
Bad Debts	5,875	713	5,162
Depreciation	16,579,466	15,754,666	824,800
Interest	900	1,457	(557)
Amortization of Intangibles	10,298	5,993	4,305
Other Operating Expenses	71,047	76,080	(5,033)
TOTAL OPERATING EXPENSES	259,389,998	258,759,002	630,996

NON-OPERATING REVENUE
\$87,094,075
SDSU & ATTACHED AGENCIES



	FY13	FY12	INCREASE (DECREASE)
General Fund Appropriations	59,408,847	56,024,888	3,383,959
School & Public Lands	617,502	614,398	3,104
Federal Fund Appropriations	8,166,319	9,363,852	(1,197,533)
Higher Education Facilities Fund	1,156,346	935,263	221,083
Endo/Ecto Parasiticide Tax	250,000	250,000	-
Investment Income	714,732	1,030,502	(315,770)
BAB Subsidy	618,010	627,872	(9,862)
Other Non-Operating Revenue & Additions	29,764	22,277	7,487
Capital Grants & Contracts	11,313,242	7,012,350	4,300,892
Capital HEFF	2,867,319	2,139,017	728,302
SD Building Authority Bond Proceeds	1,951,994	4,956,559	(3,004,565)
TOTAL NON-OPERATING REVENUE	87,094,075	82,976,978	4,117,097

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*. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required 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.

Accounts of the South Dakota State University Foundation are not included in the financial statements as it is a legally separate entity.

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 insure observance of the limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained according to the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into 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, 2013 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 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.

Notes receivable as of June 30, 2013 are \$11,970,553.70 with a corresponding allowance of \$389,203.00 for a net notes receivable of \$11,581,350.70.

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, Auxiliary Enterprises & 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.

Investments in the Retirement of Indebtedness fund include a GNMA Investment and Federal Government Obligation funds which are held in trust by a trustee. These investments are reported at Fair Market Value. Interest earnings on the GNMA Investment and Federal Government Obligation funds are received by the University and are included in Investment Income in the Retirement of Indebtedness Fund.

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, 2013 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 or the South Dakota Board of Regents. 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 or 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 \$38,122,404.78 for library books and \$133,194.16 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 Memorial Art Collection of \$8,656,860.50 is a Non-Depreciable Asset & 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.

The Higher Education Facilities Fund allocates 20% of tuition and system fees deposited with the Tuition & Fee Fund from all state supported universities in South Dakota to building improvements.

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 and building improvements and \$50,000 or more for land improvements & infrastructure.

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 and 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.

Effective for FY2002, the University depreciated buildings & building improvements, land improvements, infrastructure & 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 & land improvements are depreciated over 20 years. Infrastructures are 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.

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

Invested in Capital Assets, Net of Related Debt represents the net value of capital assets (land, buildings & building improvements, land improvements, infrastructure, construction in progress, equipment and the Memorial Art Collection) 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.

L. SCHOLARSHIP ALLOWANCES AND STUDENT AID: Tuition & 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 & fee revenue is reduced by the amount that was paid for by certain types of financial aid, such as PELL grants, scholarships & other governmental grants, etc. The alternative method eliminated the double reporting of revenue, first as financial aid revenue & then as tuition & fee revenue. Using the alternative method, the revenue is recognized for the financial aid grants, scholarships, etc. while the financial aid expense & tuition & fee revenue is eliminated for the amount of financial aid applied to student's accounts.

M. REVENUE RECOGNITION: The University uses accrual basis accounting & 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, 2013.

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

Non-operating revenues include state appropriations, federal appropriations, non-exchange transactions & 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 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 2013 was \$59,408,847.00. Effective July 1, 1994, the University no longer deposits state support tuition & system fees into the State General Fund but rather deposits them into a Tuition & Fee Fund under the control of the Board of Regents.

V. TUITION & FEES

The University reports state support tuition & system fees revenue as it is allocated back to the University from the Board of Regents Tuition & Fee fund. For fiscal year 2013, the University received a tuition allocation from the Board of Regents of \$39,095,902.31 which consisted of \$31,345,747.96 for State Support tuition & \$7,750,154.35 for Salary Competitiveness fee.

The University collected a total of \$48,021,847.55 in state support tuition and system fees for fiscal year 2013. Of the \$48,021,847.55, \$40,210,675.41 was remitted to the Board of Regents Tuition & Fee fund while \$7,811,172.14 was remitted to the Higher Education Facilities Fund. The \$40,210,675.41 includes \$7,750,154.35 of Salary Competitiveness fee, \$345,644.70 of Technology fee and \$870,187.80 of Science Lab Facilities Bond. These amounts are not reported on the University's financial statements.

The University also reported \$15,168,808.20 of Self Support tuition & \$41,757,316.56 of local student fees which included the Salary Competitiveness fee allocation from the Board of Regents of \$7,750,154.35.

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 FY13 allocation to the Regents Information System was \$1,181,124.00. The allocation amount was expended from tuition & fees collected from students.

For FY13, an additional \$387,750.00 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, 2013 may be found on the School & Public Land's web site at www.sdpubliclands.com/support/index.shtm.

VIII. COMMITMENTS

The University had outstanding commitments of \$50,208,232 for architectural/engineering and construction contracts for Capital and Non-Capital Improvement Projects as of June 30, 2013. These contracts are filed in Facilities and Services. The \$50,208,232 does not include contracts filed in other departments nor does it include some of the smaller Non-Capital projects. The majority of the \$50,208,232 will be expended by June 30, 2014.

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 assets 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 \$458,549.49 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, Nursing Alumni program, Federal Direct Loan program, Aviation flight training, 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 \$254,842.93 in funds held for various student organizations. The funds held for others are principally cash.

XII. CAPITAL ASSETS

A summary of changes in Capital Assets follows:

	Balance 7/1/2012	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2013
Land	9,002,997.70		133,000.00		9,135,997.70
Land Improvements	9,784,631.03	5,419.10	3,730,526.01		13,520,576.14
Infrastructure	16,933,602.40	199,393.30	1,971,452.85		19,104,448.55
Buildings & Improv	350,433,281.32	.01	15,365,859.56		365,799,140.89
Mem. Art Collection	8,339,858.50		317,002.00		8,656,860.50
Equip. & Other Property	92,666,558.32	150,862.58	8,006,872.31	(589,134.03)	100,235,159.18
Total	487,160,929.27	355,674.99	29,524,712.73	(589,134.03)	516,452,182.96
Less Accumulated Depreciation:					
Land Improvements	(5,155,596.05)	(271.00)	(600,733.00)		(5,756,600.05)
Infrastructure	(4,643,401.87)	(9,970.00)	(524,160.00)		(5,177,531.87)
Buildings & Improv	(108,490,801.11)		(9,771,800.00)		(118,262,601.11)
Equip. & Other Property	(67,207,499.33)	(32,668.33)	(5,682,772.85)	475,412.99	(72,447,527.52)
Total Accum Depr	(185,497,298.36)	(42,909.33)	(16,579,465.85)	475,412.99	(201,644,260.55)
Net Capital Assets	301,663,630.91	312,765.66	12,945,246.88	(113,721.04)	314,807,922.41

XIII. CONSTRUCTION IN PROGRESS

A summary of changes in Construction in Progress follows:

	Balance 7/1/2012	Prior Period Adjustments	Additions	Deletions	Balance 6/30/2013
Construction In Progress	32,258,194.34	(260,038.31)	52,233,424.70	(20,654,696.92)	63,576,883.81

XIV. INVESTED IN CAPITAL, NET OF RELATED DEBT

The Net Asset category, Invested in Capital, Net of Related Debt, represents the total cost of the fixed assets, less accumulated depreciation, less any outstanding debt pertaining to the fixed assets.

XV. LONG-TERM LIABILITES

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 7/1/2012	Additions	Reductions	Balance 6/30/2013	Current Portion
Leases & Bonds Payable:							
Lease Obligations		2014	72,559		(35,472)	37,087	37,087
Notes Payable		2017	825,000		(165,000)	660,000	165,000
Revenue Bonds Payable:							
Series 2004 Bonds	2.50%- 5.00%	2024	21,005,000		(1,485,000)	19,520,000	1,555,000
Series 2005A Bonds	4.00%- 5.00%	2030	2,510,000		(95,000)	2,415,000	95,000
Series 2006 Bonds	3.92%	2026	6,220,000		(340,000)	5,880,000	355,000
Series 2009 Bonds	2.15%- 6.25%	2034	31,445,000		(1,000,000)	30,445,000	1,020,000
Series 2011 Bonds	3.00%- 5.00%	2036	57,700,000			57,700,000	1,505,000
Sub-Total			119,777,559		(3,120,472)	116,657,087	4,732,087
Other Long-Term Liabilities:							
Compensated Absences			13,731,900	5,454,226	(4,997,869)	14,188,257	4,433,208
Federal Capital Contributions			10,414,518	31,918		10,446,436	0
Sub-Total			24,146,418	5,486,144	(4,997,869)	24,634,693	4,433,208
Total Long-Term Liabilities			143,923,977	5,486,144	(8,118,341)	141,291,780	9,165,295

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 purchase equipment. 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, 2013.

The annual requirements to amortize all revenue Capital Leases outstanding as of June 30, 2013, including interest payments of \$1,693.50 are as follows:

Fiscal Year	Principal	Interest	Total
2014	37,087.26	1,693.50	38,780.76
	37,087.26	1,693.50	38,780.76

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 \$660,000 as of June 30, 2013.

Revenue Bonds Payable are authorized by the Board of Regents & 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, 2013 is as follows:

Housing & Auxiliary Facilities Revenue Bonds - Series 2004		
Suite Style Residence Hall/Union Expansion		
Interest at 2.50% - 5.00%		
Annually to 2024		\$ 19,520,000
Housing & Auxiliary Facilities Revenue Bonds - Series 2005A		
Residence Hall Renovation		
Interest at 4.00% - 5.00%		
Annually to 2030		2,415,000
Housing & Auxiliary Facilities Revenue Bonds - Series 2006		
Wellness Center, Food Service & Res Hall Improvements		
Interest at 3.92%		
Annually to 2026		5,880,000
Housing & Auxiliary Facilities Revenue Bonds - Series 2009		
New Residence Halls, Dining Expansion & Parking		
Interest at 2.15% - 6.25%		
Annually to 2034		30,445,000
Housing & Auxiliary Facilities Revenue Bonds - Series 2011		
New Residence Halls, Union Expansion/Dining, Family Student Housing, & Parking Expansion		
Interest at 3.00% - 5.00%		
Annually to 2036		57,700,000
Total		\$ 115,960,000

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 pledged net revenue for the University was \$11,393,178.45 for FY13.

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.

The annual requirements to amortize all revenue bonds outstanding as of June 30, 2013, including interest payments of \$66,217,066.98 are as follows:

Fiscal Year	Principal	Interest	Total
2014	4,530,000.00	5,563,848.29	10,093,848.29
2015	4,585,000.00	5,386,304.04	9,971,304.04
2016	4,780,000.00	5,204,157.71	9,984,157.71
2017	5,035,000.00	4,997,679.63	10,032,679.63
2018	5,250,000.00	4,755,226.07	10,005,226.07
2019-2023	29,060,000.00	19,622,287.13	48,682,287.13
2024-2028	24,020,000.00	12,938,429.67	36,958,429.67
2029-2033	25,355,000.00	6,774,782.87	32,129,782.87
2034-2036	13,345,000.00	974,351.57	14,319,351.57
Total	115,960,000.00	66,217,066.98	182,177,066.98

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

	Total Bonds Payable	Short-Term Portion	Long Term Portion
Revenue Bonds Payable	\$ 115,960,000.00	\$ 4,530,000.00	\$ 111,430,000.00
Premium	3,370,368.57	182,857.95	3,187,510.62
Deferred Amount on Refunding	(387,998.01)	(44,985.28)	(343,012.73)
Original Issue Discount	(65,182.69)	(3,103.94)	(62,078.75)
Per Statement of Net Position	\$ 118,877,187.87	\$ 4,664,768.73	\$ 114,212,419.14

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, 2013, a liability existed for accumulated annual leave calculated at the employees' June 30, 2013 pay rates. The accrued annual leave liability for the University as of June 30, 2013 was \$5,088,083.56. 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 employee's annual compensation. At June 30, 2013, a liability existed for accumulated sick leave calculated at the employees' June 30, 2013 pay rates in the amount of \$9,100,173.45.

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 7/1/2012	FY13 Changes	Balance 6/30/2013
Fund Balances, College & University Audit Guide	473,742,178.63	33,617,586.98	507,359,765.61
Model Differences:			
Accumulated Depreciation	(185,497,298.36)	(16,146,962.19)	(201,644,260.55)
Reclassification of Federal Loan Programs	(10,414,518.42)	(31,918.00)	(10,446,436.42)
Net Position total per SNP & SRECNP	<u>277,830,361.85</u>	<u>17,438,706.79</u>	<u>295,269,068.64</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 \$2,406,349.88 which consisted primarily of Cash & 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 \$185,724.70 which consisted primarily of funds available to be expended from outside scholarship sources.

The University had Other restricted expendable net position of \$4,738,450.27 which consisted of \$1,676,957.07 of net position restricted by various grants & contracts, \$2,963,202.42 of net position restricted by bond covenants to be held for use in Renewals & Replacements of buildings covered by various bond covenants, \$65,790.78 of net position restricted by bond covenants for Retirement of Indebtedness & \$32,500.00 of net position restricted by federal appropriations.

XX. PRIOR PERIOD ADJUSTMENTS

The University had prior period adjustments which increased the beginning Net Position total by \$67,819.12.

Summary of Prior Period Adjustments:

<u>June 30, 2012 Asset/Liability Correction</u>	<u>Effect on Net Assets</u>
Accounts Receivable Understated	11,679.84
Notes Receivable Overstated	(2,154.57)
Construction in Progress Overstated	(260,038.31)
Buildings & Building Improvements Understated	.01
Land Improvements Understated	5,148.10
Infrastructure Understated	189,423.30
Equipment & Other Property Understated	118,194.25
Accounts Payable Overstated	1,000.50
<u>Student Deposits Overstated</u>	<u>4,566.00</u>
Net Change to Beginning Net Position	<u>67,819.12</u>

XXI. SUBSEQUENT EVENTS

The Series 2004 bonds which had outstanding bonds payable of \$19,520,000 as of June 30, 2013 were refunded by the Series 2014A bonds issued in January of 2014.

Note 1 - Principal Activity and Significant Accounting Policies

Principles of Consolidation

The financial statements include the consolidated 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). The Foundation has control over these entities. All material intercompany balances and transactions have been eliminated.

Principal Business Activity

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 farm and cattle feedlot operation received as a gift to provide opportunities for research, student instruction, scholarships, and internships to benefit students attending SDSU. 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.

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, and the Enterprise is under common management with the Foundation.

MightyFly's principal asset is an 8 passenger airplane. MightyFly leases the airplane to SDSU under a five-year lease agreement that provides for lease payments of \$74,100 per year. SDSU is responsible for all expenses related to the operations and maintenance of the airplane. MightyFly pays annual dividends to the Foundation approximately equal to the lease payments received from SDSU. The Foundation is MightyFly's sole shareholder.

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.

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 pledges, notes, contracts, and other receivables are 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 are 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 are measured at their fair value. 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, 2012 and 2011, no impairment charge has been recorded.

Certain funds have been pooled for ease of management and to provide greater diversification in 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 Foundation's portfolio manager has the ability to invest in derivative and hedge instruments as a part of their investment strategy.

Pledges Receivable

Unconditional pledges receivable 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, pledges receivable balances from certain individual donors may represent a substantial portion of the total outstanding receivables.

Trusts Held by Others

Donors have established various split-interest agreements where the Foundation is not the trustee but is the beneficiary of the underlying assets. The present value of the Foundation's estimated remainder interest in these agreements is shown on the accompanying statements of financial position as trusts held by others.

Notes, Contracts, and Other Receivables

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

	2012	2011
Note receivable, net of present value discount of \$32,730 and \$53,942, respectively	\$ 627,270	\$ 771,058
Contract for deed	694,836	963,193
Other receivables	239,848	124,990
	\$ 1,561,954	\$ 1,859,241

The note receivable is due from SDSU in annual installments of \$165,000, matures in 2016, and is discounted to present value using a discount rate of 3.5%. The contract for deed represents amounts due from a collateralized obligation under payment terms exceeding one year. The contract carries an interest rate varying from 4-5%, with payments applied first to unpaid interest balances and any remainder to the principal balance. The Organization evaluates the collectability of these balances based on collection history and the specific circumstances of the contract. Management has determined that no portion of the notes, contracts, or other receivables is uncollectible.

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 financial statements net of accumulated depreciation of \$2,323,203 and \$2,163,504 at December 31, 2012 and 2011, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5-40 years, and totaled \$327,757 and \$281,523 for the years ended December 31, 2012 and 2011, respectively.

Property Held for Investment

Property held for investment consists of land, buildings, and equipment. Property held for investment, 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. Property held for investment is periodically reviewed for impairment. For the years ended December 31, 2012 and 2011, no impairment charge has been recorded. All of the fixed assets included in property held for investment will eventually be used to support SDSU.

Prepaid SDSU Support

In 2007, the Foundation purchased a scoreboard for use by SDSU in accordance with an agreement under which the scoreboard is being gifted to SDSU over a ten-year period. The portion of the scoreboard not considered to be gifted to SDSU was \$1,194,448 and \$1,493,060 as of December 31, 2012 and 2011. These amounts are shown as prepaid SDSU support in the accompanying statements of financial position.

Inventory

Inventory includes livestock and harvested crops used in the operations of the Farm. Inventory, stated at fair value less estimated costs of disposal, was \$947,184 and \$894,657 at December 31, 2012 and 2011, respectively.

Disbursements to SDSU

The Foundation has committed to fund selected construction projects on the SDSU campus. Construction contracts for these projects are between SDSU and the contractors. The Foundation receives requests for payment of projects from SDSU as the work progresses. Additionally, the Foundation receives requests for payment of certain SDSU departmental expenses. The Foundation records a liability for disbursements to SDSU when requests for payment are submitted.

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.

Gifts 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 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 contributions 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 statements of activities as net assets released from restrictions.

Fair Value Measurements

The Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques maximize the use of observable inputs, minimize the use of unobservable inputs, and prioritize inputs into three broad levels.

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

Tax 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, 2012 and 2011 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. The Farm and the Enterprise are subject to U.S. Federal tax examinations by tax authorities. The Foundation's Form 990-T and MightyFly's Form 1120 are no longer subject to U.S. Federal, state, or local tax examinations for years before 2009.

Direct Investment Expenses

Management and bank fees paid to third parties totaled \$234,573 and \$339,168 as of December 31, 2012 and 2011, respectively, and are included in general and administrative expenses on the consolidated statements of activities.

Restrictions on Net Assets

The Organization records its activities in the following three net asset classes based on the existence or absence of donor-imposed restrictions:

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 represent 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. Temporarily restricted net assets are available for the following purposes:

	2012	2011
Scholarships	\$ 5,020,117	\$ 4,379,682
SDSU operational and program support	18,583,023	14,183,984
SDSU capital projects	15,353,544	9,316,342
	\$ 38,956,684	\$ 27,880,008

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

	2012	2011
Scholarships	\$ 68,615,734	\$ 64,780,080
SDSU operational and program support	41,770,693	39,864,206
	\$ 110,386,427	\$ 104,644,286

Statements of Cash Flows

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the statement of cash flows.

The Organization had the following non-cash transactions during 2012 and 2011:

	2012	2011
Debt and equity securities received as gifts	\$ 4,371,935	\$ 828,889
Property and property held in investments received as gifts	1,056,786	-
Contract for deed received as gifts	-	238,888
Equipment purchased through issuance of long-term debt	34,294	29,197

Cash paid for interest totaled \$536,800 and \$667,840 for the years ended December 31, 2012 and 2011, respectively.

Reclassifications

Certain amounts from the accompanying 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. The reclassifications had no effect on previously reported net assets.

Subsequent Events

The Organization has evaluated subsequent events through June 18, 2013, the date which these financial statements were available to be issued.

Note 2 - Investments

Investments are presented in the financial statements principally at their fair value. Investments at December 31, 2012 and 2011, consist of the following:

	2012	2011
Equities	\$ 71,327,549	\$ 60,285,150
Corporate and government bonds	23,938,404	21,435,710
Private equity	2,066,385	2,317,788
Commodity mutual funds	346,375	224,799
All asset funds	159,763	146,697
Savings certificates, at cost	4,984,925	4,907,888
Property held in trust, at cost	1,667,762	1,658,516
	\$ 104,491,163	\$ 90,976,548

Note 3 - Fair Value of Assets and Liabilities

Fair Value Measurements

The fair value of assets measured on a recurring basis at December 31, 2012 and 2011 is as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>December 31, 2012</u>			
Equities			
Domestic large cap	\$ 24,698,992	\$ -	\$ -
Domestic small and midcap	2,943,792	-	-
International	28,013,298	3,949,115	-
Fixed income	-	7,590,204	-
Hedge	-	-	4,132,148
Bonds			
Corporate	-	13,042,541	-
Government	10,895,863	-	-
All asset funds	159,763	-	-
Commodity mutual funds	346,375	-	-
Private equity	-	-	2,066,385
Trusts held by others	-	-	1,545,058
Beneficial interest in perpetual trust	-	-	837,415
	\$ 67,058,083	\$ 24,581,860	\$ 8,581,006

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>December 31, 2011</u>			
Equities			
Domestic large cap	\$ 22,932,932	\$ -	\$ -
Domestic small and midcap	2,618,031	-	-
International	21,029,463	3,288,178	-
Fixed income	-	7,049,802	-
Hedge	-	-	3,366,744
Bonds			
Corporate	-	11,145,418	-
Government	10,290,292	-	-
All asset funds	146,697	-	-
Commodity mutual funds	224,799	-	-
Private equity	-	-	2,317,788
Trusts held by others	-	-	1,366,011
Beneficial interest in perpetual trust	-	-	779,475
	<u>\$ 57,242,214</u>	<u>\$ 21,483,398</u>	<u>\$ 7,830,018</u>

The Foundation's investments in domestic equities, a significant portion of international equities, government bonds, all asset funds, and commodity mutual funds are comprised of investments with readily determinable fair values based on daily redemption values and are classified as Level 1 within the fair value hierarchy. The fair value of the Foundation's investments in corporate bonds is valued by reference to similar assets that are directly or indirectly observable in the marketplace and are classified within Level 2.

The fair value of the Foundation's investments in fixed income equities, a portion of international equities, hedge equities, and private equity investments are comprised of investments which do not have readily determinable fair values. These investments are valued based on the net asset value (NAV) per share, or its equivalent. Investments valued at NAV are classified within Level 2 if the Foundation has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or in the near term; otherwise, the investments are classified within Level 3. The fair value of trusts held by others and the beneficial interest in perpetual trusts is estimated at the present value of the expected future cash flows and are classified within Level 3.

Following is a reconciliation of activity for assets required to be measured at fair value that are based upon significant unobservable (non-market) information for 2012 and 2011:

	Hedge Equities	Private Equity Investments	Trusts Held by Others	Beneficial Interest in Perpetual Trusts
Balance, January 1, 2012	\$ 3,366,744	\$ 2,317,788	\$ 1,366,011	\$ 779,475
Adjustments to fair value	315,404	(789,772)	179,047	57,940
Additions	450,000	618,894	-	-
Withdrawals and payments	-	(80,525)	-	-
Balance, December 31, 2012	<u>\$ 4,132,148</u>	<u>\$ 2,066,385</u>	<u>\$ 1,545,058</u>	<u>\$ 837,415</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

	Hedge Equities	Private Equity Investments	Trusts Held by Others	Beneficial Interest in Perpetual Trusts
Balance, January 1, 2011	\$ -	\$ 1,885,222	\$ 1,610,373	\$ 830,417
Adjustments to fair value	(133,256)	(155,713)	(182,984)	(50,942)
Additions	3,500,000	647,859	137,447	-
Withdrawals and payments	-	(59,580)	(198,825)	-
Balance, December 31, 2011	<u>\$ 3,366,744</u>	<u>\$ 2,317,788</u>	<u>\$ 1,366,011</u>	<u>\$ 779,475</u>

Assets and liabilities measured at fair value through the use of unobservable inputs on a non-recurring basis at December 31, 2012 and 2011, respectively, are as follows:

	2012	2011
Assets		
Pledges receivable	\$ 31,565,547	\$ 31,350,506
Liabilities		
Gift annuities and life income agreements	8,848,794	8,784,075

Other Financial Instruments

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

	2012	2011
Assets		
Contract for deed and other receivables	\$ 934,684	\$ 1,088,183
Note receivable	627,270	771,058
Cash surrender value of life insurance	386,460	364,287
Liabilities		
Investments held for others	252,561	261,792
Notes payable	14,840,865	16,388,086

The Organization considers the carrying amount of the financial instruments listed above to be reasonable estimates of fair value.

Note 4 - Pledges Receivable

Pledges receivable at December 31, 2012 and 2011 represent unconditional pledges restricted for various purposes. Pledge maturities are as follows:

	2012	2011
Receivable in less than one year	\$ 10,527,009	\$ 11,563,898
Receivable in one to five years	20,435,095	18,932,913
Receivable in more than five years	4,027,541	4,874,728
	34,989,645	35,371,539
Less allowance to discount future pledges to present value (discount rates ranging from 0.80% to 3.50%)	(1,762,754)	(2,370,954)
	33,226,891	33,000,585
Less allowance for uncollectible pledges	(1,661,344)	(1,650,079)
	\$ 31,565,547	\$ 31,350,506

The allowance for uncollectible pledges receivable is conservatively estimated by management at 5% of total pledges. The allowance is based on historical experience and expected collections. Pledges are charged against the allowance when deemed uncollectible.

Pledges are unrestricted or carry restrictions as follows:

Unrestricted	\$ 20	\$ 369
Temporarily restricted	27,154,844	23,698,071
Permanently restricted	6,072,027	9,302,145
	\$ 33,226,891	\$ 33,000,585
Total pledges	\$ 33,226,891	\$ 33,000,585

Note 5 - 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 \$1,626,742 and \$1,551,742 at December 31, 2012 and 2011, respectively, with aggregate cash surrender values totaling \$386,460 and \$364,287 at December 31, 2012 and 2011, respectively.

Note 6 - Beneficial Interest Trusts

Beneficial Interest in Revocable Trusts

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

Beneficial Interest in Perpetual Trust

The beneficial interest in perpetual trust consists of a trust administered by others in which the Foundation is an income beneficiary in perpetuity. The Foundation records these gifts as permanently restricted net assets at the fair value of the trust assets. The value of the trust assets was \$837,415 and \$779,475 as of December 31, 2012 and 2011, respectively, and is included in the accompanying statements of financial position.

Note 7 - Investments Held for Others

Investments held for others of \$252,561 and \$261,792 as of December 31, 2012 and 2011, respectively, 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.

Note 8 - Gift Annuity and Life Income Agreements

Gift Annuity Agreements

The Foundation has entered into gift annuity agreements requiring the Foundation to pay periodic amounts to designated beneficiaries until their death. Payments continue even if the assets gifted or acquired as a result of a gift have been exhausted. The Foundation records these gifts at market value net of a corresponding liability for the actuarially determined present value of payments to be made to the designated beneficiaries. The estimated present value of future payments, to be made under these agreements, discounted at rates ranging from 1.00% to 8.20%, totals \$2,821,418 and \$2,689,590 at December 31, 2012 and 2011, respectively.

Life Income Agreements

Life income agreements consist of charitable remainder trusts and pooled income funds. The Foundation records these gifts at market value. The current income from these instruments is paid to the donor and/or named beneficiaries for their lifetime(s). When the lifetime income obligations have ceased, the residual value becomes an endowment to support a SDSU program designated by the donor. Investments held under life income agreements total \$10,435,486 and \$10,198,337 as of December 31, 2012 and 2011, respectively. The estimated present value of future investment income distributions to beneficiaries, discounted at rates ranging from 2.53% to 6.50%, is \$6,027,376 and \$6,094,485 at December 31, 2012 and 2011, respectively.

Note 9 - Notes Payable

Building Note Payable

The Foundation had a long-term note payable with a banking institution related to and secured by its office building. The balance of this note was paid in full during 2011. During 2012, a note of \$921,489 was re-established with a different banking institution. The note is due on demand. If no demand is made, the note matures in March 2020 and requires monthly payments of principal and interest of \$11,300. The balance of the note at December 31, 2012 is \$846,598.

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 (1.46% as of December 31, 2012 and 2011). The financing is secured by certain current and future pledges and is subject to certain financial and other covenants. The aggregate balance of these notes as of December 31, 2012 and 2011 is \$6,083,080 and \$7,062,311, respectively.

During 2010, 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 interest fixed at 4.25%, annual payments of \$1,500,000 plus interest, and a final maturity of July 31, 2017. The financing is secured by current and future gifts, pledges, and contributions related to the project and is subject to certain financial and other covenants. The balance of the note was \$7,388,194 and \$8,888,194 as of December 31, 2012 and 2011, respectively.

Operating Loans

The Farm has two revolving lines of credit from a banking institution for operations and livestock purchases. During August 2012, the Farm renegotiated existing lines with a new bank. The lines total \$1,000,000 and mature on June 15, 2013. The lines provide for borrowing amounts on a short-term basis with any outstanding borrowings and accrued interest on these lines due on June 15, 2013. The lines carry a variable interest rate equal to .50% over the Wall Street prime rate, rounded to the nearest .125%, currently 3.75%, and are secured by substantially all of the income and assets of the Farm. Prior to August 2012, the revolving lines of credit carried a variable interest rate equal to 2.00% over the Wall Street Journal prime rate, subject to a 5.00% floor, 5.25% as of December 31, 2011, and were secured by substantially all the income and assets of the Farm. The aggregate balance of the revolving lines of credit as of December 31, 2012 and 2011, was \$436,500 and \$361,000, respectively.

Other Long-Term Notes Payable

The Farm's other long-term notes payable consist of three equipment notes with combined balances of \$86,493 and \$76,581 as of December 31, 2012 and 2011, respectively.

Scheduled Maturities

The estimated principal maturities by year of notes payable at December 31, 2012, are summarized as follows:

<u>Years Ending December 31,</u>	
2013	\$ 3,051,274
2014	2,620,194
2015	2,598,280
2016	2,603,068
2017	2,496,366
Thereafter	1,471,683
	<u>\$ 14,840,865</u>

Interest Expense

Interest expense on notes payable totaled \$495,743 and \$636,003 for 2012 and 2011, respectively, and is recorded in administrative and general expenses on the accompanying consolidated statements of activities.

Note 10 - Net Assets Released from Restrictions

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:

	2012	2011
Purpose restrictions accomplished		
Current year expenditures		
Scholarships	\$ 2,600,552	\$ 3,795,276
SDSU operational and program support	4,546,006	6,531,755
SDSU capital projects	2,792,258	12,471,840
Other program support and direct investment expenses	2,793,658	2,766,770
Foundation administrative fee retained	2,005,760	2,049,437
Previously incurred expenditures		
Scholarships	1,374,878	263,745
SDSU operational and program support	358,157	45,860
SDSU capital projects	795,575	662,713
	\$ 17,266,844	\$ 28,587,396

Note 11 - Retirement Plan

The Organization provides retirement benefits for all full-time and permanent part-time employees. Employees are required to contribute five percent of their salary to the plan once they have completed 500 hours in the first six months of service or 1,000 hours in the first twelve months of service, whichever comes first. The Organization is required to contribute an amount equal to each employee's contribution, up to five percent. The Organization made contributions of \$77,683 and \$78,646 to the plan for the years ended December 31, 2012 and 2011, respectively.

Note 12 - Fundraising Costs

The Foundation incurred direct fundraising costs of \$2,501,165 and \$2,222,078 for 2012 and 2011, respectively. These costs are included in administrative and general expenses on the accompanying consolidated statements of activities. Management believes that the vast majority of other administrative expenses relate indirectly to fundraising.

Note 13 - Endowments

The Foundation's endowment consists of approximately 1,520 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The 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 organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 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.

Changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year, January 1, 2012	\$ (10,676,791)	\$ 4,353,649	\$ 96,017,401	\$ 89,694,259
Investment return				
Investment income	-	1,992,123	1,615	1,993,738
Net appreciation (depreciation)	-	6,103,172	(2,014)	6,101,158
Total investment return	-	8,095,295	(399)	8,094,896
Contributions	-	1,793,223	4,665,522	6,458,745
Appropriation of endowment assets for expenditure and transfers	3,032,024	(6,594,366)	-	(3,562,342)
Endowment net assets at end of year, December 31, 2012	<u>\$ (7,644,767)</u>	<u>\$ 7,647,801</u>	<u>\$ 100,682,524</u>	<u>\$ 100,685,558</u>

South Dakota State University Foundation
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year, January 1, 2011	\$ (7,418,818)	\$ 5,151,905	\$ 87,105,767	\$ 84,838,854
Investment return				
Investment income	-	1,993,296	1,455	1,994,751
Net (depreciation) appreciation	-	(2,277,405)	6	(2,277,399)
Total investment return	-	(284,109)	1,461	(282,648)
Contributions	-	623,810	8,910,173	9,533,983
Appropriation of endowment assets for expenditure and transfers	(3,257,973)	(1,137,957)	-	(4,395,930)
Endowment net assets at end of year, December 31, 2011	<u>\$ (10,676,791)</u>	<u>\$ 4,353,649</u>	<u>\$ 96,017,401</u>	<u>\$ 89,694,259</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 \$7,644,000 and \$10,677,000 as of December 31, 2012 and 2011, respectively. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and 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 organization 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 in 2012 and 2011 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, 2012 and 2011. 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 14 - Unrestricted Net Assets Deficit

Certain endowment investments had market values that were less than the original value of endowed gifts (Note 13). The effect of changes in these deficiencies, approximately \$3,033,000 and \$(3,244,000) as of December 31, 2012 and 2011, respectively, is included in interfund transfers on the accompanying consolidated statements of activities. This cumulative deficiency totaled approximately \$7,644,000 and \$10,677,000 as of December 31, 2012 and 2011, 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 pledges receivable, has resulted in deficiencies that are reported in unrestricted net assets. This cumulative deficiency totaled approximately \$6,378,000 and \$8,231,000 as of December 31, 2012 and 2011, 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 15 - 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, 2012, these contracts require the Foundation to contribute total capital of approximately \$5,732,000, plus certain allowable expenses. As of December 31, 2012, the Foundation has contributed approximately \$3,175,000. Additional contributions of approximately \$2,557,000 will be paid when requested by the fund managers. The contributions are included in investments on the accompanying statements of financial position. Subsequent to December 31, 2012, the Foundation committed an additional \$1,500,000 investment of funds.

Campus Building Projects

The Foundation has committed to fund selected construction projects on the SDSU campus. The costs of these projects are generally expensed as construction progresses. In some cases, the Foundation finances the construction costs until pledge commitments are received.

As of December 31, 2012, the Foundation has committed to provide approximately \$44,940,000 for five SDSU building projects, either yet to be started or already in progress. Through December 31, 2012, the Foundation has paid costs of approximately \$930,000 towards these projects.

SOUTH DAKOTA STATE UNIVERSITY
FUNCTIONAL CLASS MATRIX
FYE June 30, 2013

	Personal Services	Travel	Contractual	Supplies & non-capitalized equip	Grants & Subsidies	Other & Bad Debt Expense	Depreciation & Amortization	Total
Instruction	\$ 58,515,726.73	\$ 1,469,343.72	\$ 4,583,213.37	\$ 4,699,621.52	\$ 427,331.56	\$ 96.79	\$ 564,724.79	\$ 70,260,058.48
Research	29,758,180.98	1,924,617.17	4,731,044.17	6,467,447.48	9,664,971.29	4,784.04	2,172,712.71	54,723,757.84
Public Service	16,935,922.36	962,888.87	3,901,989.22	3,117,136.18	1,391,571.75	3,019.00	136,150.25	26,448,677.63
Academic Support	10,110,617.63	295,274.05	64,798.67	1,128,197.51	55,407.96	295.13	743,202.81	12,397,793.76
Student Services	9,941,622.35	2,235,444.01	3,416,296.24	2,402,979.61	158,996.45	89.02	34,736.87	18,190,164.55
Institutional Support	13,118,930.24	236,270.00	4,626,940.28	1,613,019.91	1,380,217.90	443,912.98	345,285.60	21,764,576.91
Operations & Maint of Plant	7,037,468.68	72,976.10	4,898,859.52	1,376,302.25	61,972.44	110.15	12,492,830.36	25,940,519.50
Scholarships & Fellowships	489,853.89	11,820.45	6,613.66	114,439.59	6,250,627.04	-	-	6,873,354.63
Auxiliary Enterprises	4,516,557.47	42,194.12	10,827,764.55	7,127,365.52	177,092.00	24,344.55	22,715,318.21	
Other Expenses								
Depreciation (Unallocated)						75,776.26		75,776.26
TOTAL	\$ 150,424,880.33	\$ 7,250,828.49	\$ 37,057,519.68	\$ 28,046,509.57	\$ 19,568,188.39	\$ 452,307.11	\$ 16,589,764.20	\$ 259,389,997.77

Other & Bad Debt Expense:

Other Operating Expense	\$ 71,047.02
Interest	900.29
Bad Debt Expense	5,875.00
Loan Cancellation Expense	374,484.80

Total Other & Bad Debt Expense

\$ 452,307.11