

THE UNIVERSITY OF SOUTH DAKOTA AND SANFORD SCHOOL OF MEDICINE

# FINANCIAL REPORT

JUNE 30, 2010



*University of South Dakota*  
*Financial Report*  
*For the Year Ended June 30, 2010*

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The University of South Dakota

**JAMES W. ABBOTT, PRESIDENT**

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April 11, 2011

Kathryn Johnson  
Board of Regents  
306 E. Capitol Avenue  
Pierre, SD 57501

Dear Regent Johnson:

I have enclosed the Annual Financial Report for The University of South Dakota for fiscal year 2010. The report includes all financial transactions for the period. I trust you will find it informative and helpful.

Please let me know if you have any questions.

Very truly yours,

James W. Abbott

President

The University of South Dakota



The University of South Dakota.

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April 11, 2011

President James W. Abbott  
The University of South Dakota


Dear President Abbott:

I am pleased to present the annual Financial Report of The University of South Dakota for the year ended June 30, 2010.

The accounts of The University of South Dakota are maintained and its reports presented in accordance with standards recommended in the manual on College and University Business Administration, insofar as it is consistent with the classification and procedures required by the State of South Dakota.

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 The University of South Dakota for the fiscal year ended June 30, 2010.

Sincerely,

  
Sheila Gestrung  
Vice President, Finance

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION AND BACKGROUND

The University of South Dakota (University) presents its financial report for the fiscal year ended June 30, 2010, along with comparative data for the fiscal years ended June 30, 2009 and 2008.

The financial operations of The University of South Dakota are audited as a part of the State of South Dakota. Therefore 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. This section of the University of South Dakota's annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2010. This discussion should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of University management.

The University of South Dakota, the state's flagship university, is a growing, thriving university committed to excellence in education, research, and service. The University has been accredited by the North Central Association of College and Schools since 1913 and is an active member of the Land Grant Colleges. The University is a comprehensive liberal arts university offering undergraduate, graduate and professional programs within the South Dakota System of Higher Education. Our vision is to be the best small, public flagship university in the nation built upon a liberal arts foundation.

Founded in 1862 by the Dakota Territorial Legislature, the University is the state's oldest university. The University is an institution that recognizes the value of its past, even as it extends and expands its high quality programs and services to meet the challenges of tomorrow. Our promise to our students is that The University of South Dakota is the perfect fit for students looking for a smart educational investment.

The University offers classes through several schools and colleges consisting of the College of Arts and Sciences, School of Business, School of Education, College of Fine Arts, School of Law, School of Medicine and the School of Health Sciences.

The University is one of six public universities under the governance of the South Dakota Board of Regents, a nine-member board. Dr. Jack R. Warner is executive director of the Board of Regents. Therefore, 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 all six public universities are considered component units of the State of South Dakota and are reported as such in the State's comprehensive annual financial report.

The University of South Dakota Foundation (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.

## USING THE FINANCIAL STATEMENTS

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The statements required by GASB include the Statement of Net Assets, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows. The statements are prepared under the accrual basis of accounting where revenues are recognized when the service is provided and expenses are recognized when a liability is incurred regardless of when the exchange of cash takes place.

The University has provided analysis of major variances that occurred between fiscal years 2010 and 2009 as well as information regarding capital assets and debt administration, and an economic outlook. This MD&A focuses on the University excluding the discretely presented component unit.

## **FINANCIAL PERFORMANCE**

One tool the University uses to monitor its fiscal health is the Composite Financial Index (CFI). The CFI is a risk measurement indicating financial viability based on ratios of resources, expenses, income, assets, and debt. In general, CFI scores range from -1 (Can the school survive) to more than 9 (Deploy resources to achieve a robust mission).

The University uses the analysis of CFI's four key ratio to answer four financial questions:

1. Are resources sufficient and flexible enough to support the mission?
2. Are resources, including debt, managed strategically to advance the mission?
3. Does asset performance and management support the strategic direction?
4. Do operating results indicate the institution is living with available resources?

The University's CFI for FY 2010 is 2.7, indicating a need to direct resources to allow for transformation of the institution, and the University has been proactive in that regard. Construction and renewal of facilities and technology has been on a robust schedule.

The University's CFI rating dropped significantly for FY 2009, partly because of the drop in the stock market and unrealized losses in the Foundation's endowment and other investments. The University also issued an additional \$45 million in debt in the last six weeks of FY2009 for construction of two new revenue producing facilities: Coyote Village, a residential housing unit, and the Wellness Center, funded by student fees. Coyote Village construction was completed during the summer of 2010 and opened for the fall term of 2010. The Wellness Center construction was completed during the spring 2011 term and opened in February 2011. The revenues from these projects are projected to offset the related bond payments and positively affect the CFI for future years.

## FINANCIAL HIGHLIGHTS AND KEY TRENDS

The financial highlights and key trends for the University are noted accordingly in the required GASB statements.

### STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University using the accrual basis of accounting. The difference between assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in net assets that occur over time indicate improvement or deterioration of the University's financial condition. Generally, assets and liabilities are reported at cost with the exception of investments, which are reported at fair value, and capital assets, which are stated at historical costs less accumulated depreciation. A three year comparison of the Condensed Statement of Net Assets as of June 30 is as follows:

<b>Condensed Statement of Net Assets</b>			
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>			
Current Assets	\$ 59,473,960	\$ 77,172,253	\$ 39,889,880
Noncurrent Assets	\$ 233,113,413	\$ 189,985,427	\$ 138,699,110
<b>Total ASSETS</b>	<b>\$ 292,587,373</b>	<b>\$ 267,157,680</b>	<b>\$ 178,588,990</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 24,339,357	\$ 16,792,655	\$ 17,504,350
Noncurrent Liabilities	\$ 96,650,154	\$ 98,079,040	\$ 55,512,355
<b>Total LIABILITIES</b>	<b>\$ 120,989,511</b>	<b>\$ 114,871,695</b>	<b>\$ 73,016,705</b>
<b>NET ASSETS</b>			
Investment in Capital, Net of Related Debt	\$ 156,527,665	\$ 141,939,843	\$ 95,515,252
Restricted	\$ 4,750,976	\$ 4,313,703	\$ 4,861,771
Unrestricted	\$ 10,319,221	\$ 6,032,439	\$ 5,195,262
<b>Total Net Assets</b>	<b>\$ 171,597,862</b>	<b>\$ 152,285,985</b>	<b>\$ 105,572,285</b>

The University's largest asset is our investment in the physical plant which represents \$218.4, \$176.5 and \$126.3 million at June 30, 2010, 2009, and 2008 respectively.

During fiscal year 2010, the University's total assets increased over the prior year by \$25.4 million. The major decrease in current assets occurred in Cash on Deposit-State Treasurer. Cash decreased \$21.0 million primarily due to construction costs related to the Coyote Village and Wellness Center projects. The non-current assets increase was due to growth in the physical plant assets. Increases in Construction in Progress (CIP) include Coyote Village in the amount of \$23.7 million and Slagle Hall and Auditorium in the amount of \$5.1 million. The Beacom School of Business, the University Center, and the Graduate Education and Applied Research (GEAR) Center were placed in service during FY10 which accounted for a \$37.5 million increase in building value.

During FY09, the University's total assets increased over the prior year by \$88.6 million, \$37.3 million in current assets and \$51.3 million in non-current assets. The major increase in current assets occurred in Cash on Deposit-State Treasurer. Cash increased \$35.4 million primarily due to \$44.5 million dollars in bond proceeds received in June 2009. The non-current assets increase was due to growth in the physical plant assets. Increases in Construction in Progress (CIP) include the Sioux Falls University Center in the amount of \$10.3 million and the Beacom School