

**SOUTH DAKOTA**



**SCHOOL OF MINES  
& TECHNOLOGY**

**FINANCIAL REPORT**

For the year ended June 30, 2019

January 23, 2020

Dr. Paul Beran  
Executive Director  
South Dakota Board of Regents  
306 East Capitol Avenue  
Pierre, SD 57501-2545

Dear Dr. Beran:

I am pleased to forward the Annual Financial Report for South Dakota School of Mines and Technology for fiscal year 2019. This report covers all phases of the financial transactions of the university for the twelve-month period ending June 30, 2019.

Sincerely,



James M. Rankin  
President

Enclosure

SOUTH DAKOTA



SCHOOL OF MINES  
& TECHNOLOGY

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OFFICE OF FINANCE AND ADMINISTRATION

January 23, 2020

Dr. James Rankin  
President  
South Dakota School of Mines and Technology  
501 East St. Joseph Street  
Rapid City, SD 57701-3995

Dear Dr. Rankin:

The annual financial report for South Dakota School of Mines and Technology for the fiscal year ended June 30, 2019 is complete and submitted in the attached exhibits.

Standards issued by the Governmental Accounting Standards Board (GASB) have been applied in the preparation of these statements, which provide a comprehensive record of the University's financial activities.

The South Dakota School of Mines and Technology Foundation financial statements, audited by an independent certified public accountant, are included as part of this report since the Foundation is considered a component unit of SDSMT, based on the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Sincerely,

Bill Spindle  
Vice President, Finance and Administration

# **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FINANCIAL REPORT**

**For the Year Ended June 30, 2019**

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# **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**

Rapid City, South Dakota

## **FINANCIAL REPORT**

**For the Year Ended June 30, 2019**

### **REGENTS OF EDUCATION**

Kevin Schieffer, President, Sioux Falls  
John W. Bastian, Vice President, Belle Fourche  
Jim Morgan, Secretary, Brookings  
Lucas Lund, Sioux Falls  
David Mickelson, Sioux Falls  
Pam Roberts, Pierre  
Randy Schaefer, Madison  
Joan Wink, Howes  
Jim Thares, Aberdeen

### **Office of the Board of Regents**

Paul B. Beran, Executive Director & CEO  
Monte Kramer, System Vice President for Finance and Administration

### **South Dakota School of Mines and Technology Executive Administration**

Dr. James Rankin, President  
Dr. Lance Roberts, Interim Provost and Vice President for Academic Affairs  
Heather Forney, Vice President for Finance and Administration  
Dr. Ralph, Vice President for Research  
Dr. Patricia Mahon, Vice President for Student Development and Dean of Students  
Kelli Shuman, Vice President for Human Resources and Title IX  
Joel Kincart, President, SDSM&T Foundation

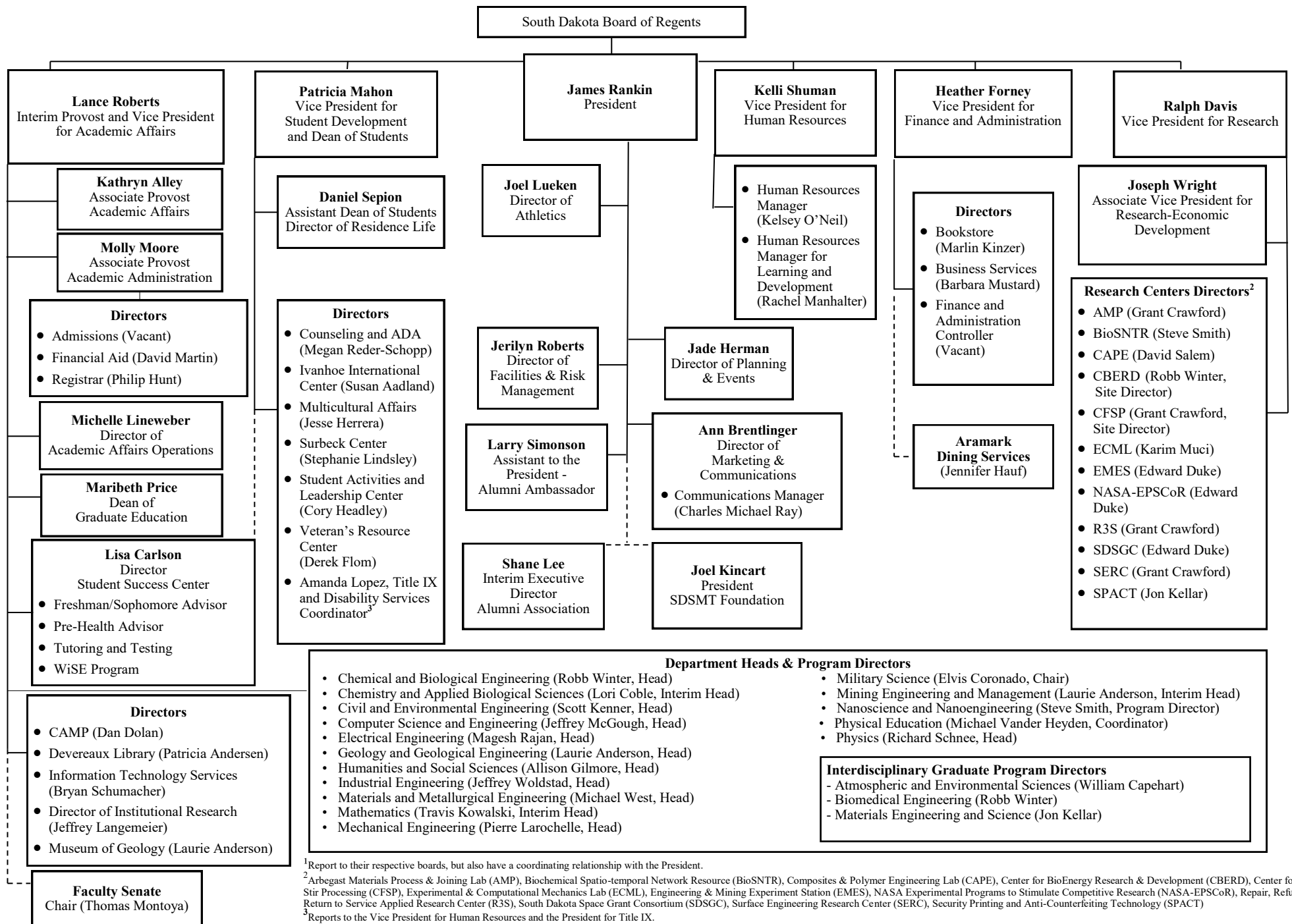
### **Office of Finance and Administration**

Heather Forney, Vice President for Finance and Administration  
Debra Rowse, Assistant Controller

# South Dakota School of Mines and Technology Organizational Chart

Last updated:

06/21/20/19



<sup>1</sup>Report to their respective boards, but also have a coordinating relationship with the President.

<sup>2</sup>Arbegas Materials Process & Joining Lab (AMP), Biochemical Spatio-temporal Network Resource (BioSNTR), Composites & Polymer Engineering Lab (CAPE), Center for BioEnergy Research & Development (CBERD), Center for Friction Stir Processing (CFSP), Experimental & Computational Mechanics Lab (ECML), Engineering & Mining Experiment Station (EMES), NASA Experimental Programs to Stimulate Competitive Research (NASA-EPSCoR), Repair, Refurbish & Return to Service Applied Research Center (R3S), South Dakota Space Grant Consortium (SDSGC), Surface Engineering Research Center (SERC), Security Printing and Anti-Counterfeiting Technology (SPACT)

<sup>3</sup>Reports to the Vice President for Human Resources and the President for Title IX.

# **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**

## **Management's Discussion and Analysis**

### **Reporting Entity**

The South Dakota School of Mines and Technology (SD Mines) presents its financial report for the fiscal year ended June 30, 2019, along with comparative data for the fiscal year ended June 30, 2018.

SD Mines is one of six public universities under the control of the South Dakota Board of Regents, a nine-member board. Based on the provision 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 financial operations of SD Mines 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. The following discussion and analysis provide an overview of the financial position and activities of South Dakota School of Mines and Technology (SD Mines) for the year ended June 30, 2019. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The South Dakota School of Mines and Technology 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**

The accompanying statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*.

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

The Statement of Net Position reports the difference in assets and liabilities and is one way of measuring the University's financial position. Non-financial measurements, such as enrollment and condition of the facilities serving the students, should also be taken into consideration.

The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are considered operating and non-operating. In accordance with GASB requirements, state appropriations have been classified 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 the 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.

### Statement of Net Position

The statement of net position presents the financial position of SD Mines, at the end of the fiscal year, and includes all assets and liabilities of the university, using the accrual basis of accounting. Generally, assets and liabilities are reported at cost, except for capital assets, which are stated at cost, less accumulated depreciation.

#### Condensed Statement of Net Position

	<u>30-Jun-2019</u>	<u>30-Jun-2018</u>
<b>ASSETS</b>		
Current assets	\$ 22,589,871	\$ 21,025,109
Noncurrent assets	\$ 98,671,131	\$100,413,672
Deferred outflow of resources	\$ 589,304	\$ 629,275
Total assets and deferred outflows	<u>\$121,850,306</u>	<u>\$122,068,056</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 7,735,771	\$ 6,698,194
Noncurrent liabilities	<u>\$ 36,305,133</u>	<u>\$ 38,470,068</u>
Total liabilities	<u>\$ 44,040,904</u>	<u>\$ 45,168,262</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$ 61,692,783	\$ 61,470,673
Restricted	\$ 5,987,890	\$ 3,672,994
Unrestricted	<u>\$ 10,128,729</u>	<u>\$ 11,756,127</u>
Total Net Position	<u>\$ 77,809,402</u>	<u>\$ 76,899,794</u>

- Total net position increased approximately \$900 thousand during FY19, mainly due to a decrease in liabilities of \$1.1 million, offset by a slight reduction of total assets, \$200 thousand.
- SD Mines' largest asset is its investment in physical plant, representing \$94 million of noncurrent assets.
- Total liabilities decreased \$1.1 million due to a decrease in bonds payable of \$1.4 million, offset by small increases in compensated absences and current accounts payable.
- SD Mines' largest liability is revenue bonds payable of \$33 million.

### Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the result of SD Mines operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating. Also, in accordance with GASB reporting standards, state appropriations have been classified as non-operating revenues, resulting in a net operating loss. The financial statements also include an allowance for depreciation expense, which is the amortization of the cost of capital assets over their estimated useful life.

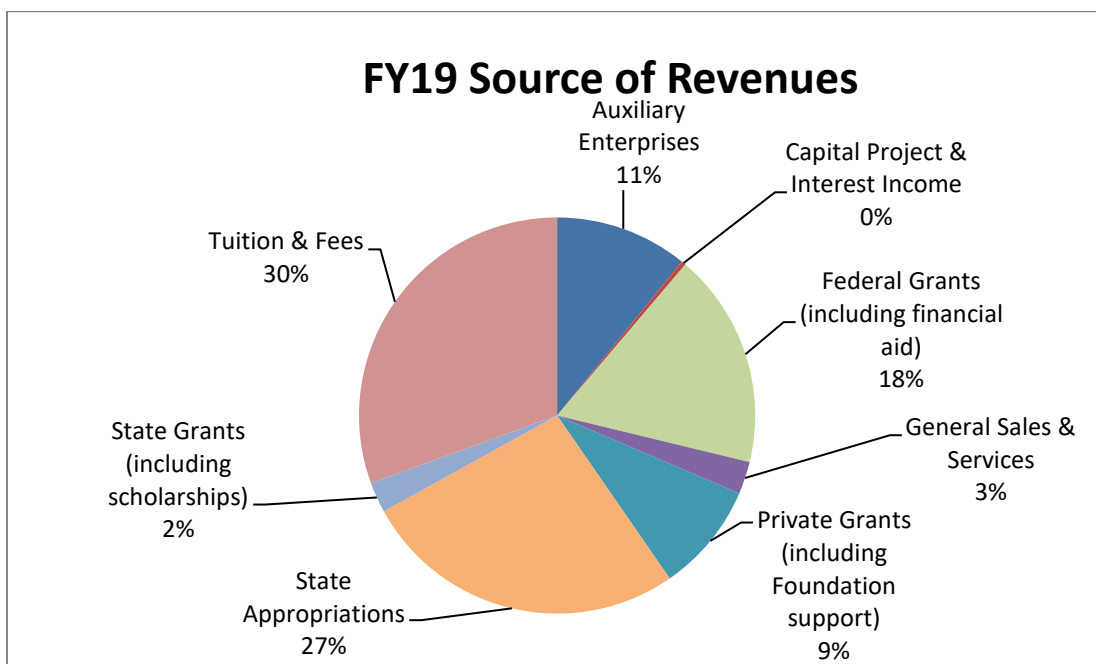
#### Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>30-Jun-2019</u>	<u>30-Jun-2018</u>
Operating Revenues	\$ 49,517,659	\$ 52,794,620
Operating Expenses	<u>\$ 68,178,872</u>	<u>\$ 69,755,062</u>
Operating Loss	\$ (18,661,213)	\$ (16,960,442)
Non-Operating Revenues	\$ 19,684,796	\$ 21,598,324
Non-Operating Expenses	<u>\$ 1,686,010</u>	<u>\$ 2,290,894</u>
Net Gain/(Loss) before capital contributions	\$ (662,428)	\$ 2,346,988
Capital Contributions	<u>\$ 1,572,035</u>	<u>\$ 2,335,182</u>
Increase(Decrease) in Net Position	\$ 909,607	\$ 4,682,170
Net Position, Beginning of Year	<u>\$ 76,899,795</u>	<u>\$ 72,217,625</u>
Net Position, End of Year	<u><u>\$ 77,809,402</u></u>	<u><u>\$ 76,899,795</u></u>

- Operating revenues decreased by \$3.2 million during the last year. Tuition and fee revenues declined \$1.4 million due to reduced enrollment, grant revenues were down \$1.7 million, and other revenues decreased by \$100 thousand.
- State appropriations, totaling \$16.9 million, are an integral part of revenues used for operations at SD Mines. GASB standards require state appropriations be reported as non-operating revenues.
- SD Mines received capital contributions consisting of \$1.3 million from the Higher Education Facilities fund and General Fund M&R allocation, with \$755 thousand used for the McLaury building renovation and \$200 thousand from research grant funds for capital equipment, during FY19.

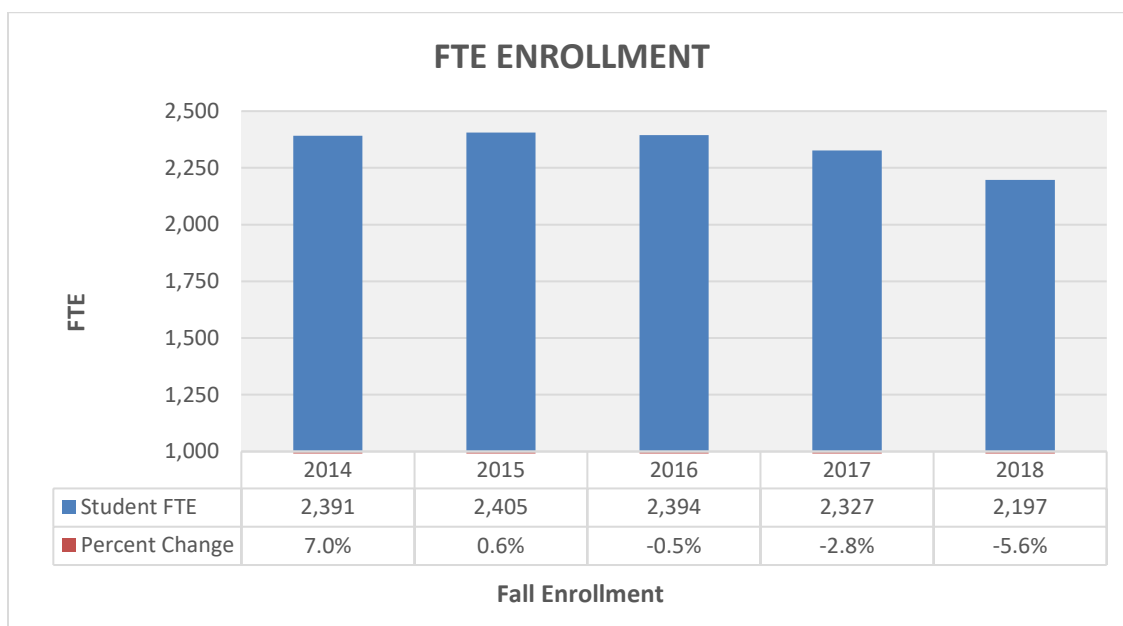
## Revenues

The chart below is an illustration of SD Mines' major revenue sources, for the year ended June 30, 2019:



Tuition and state appropriations are the primary sources of funding for the institution's academic program, representing approximately 57% of overall revenues.

Increasing enrollment is a strategic priority of the university. SD Mines is allocating additional resources to new recruiting strategies and increasing the number and amount of scholarships offered. The Board of Regents approval of a resident tuition rate for students living in the states surrounding South Dakota went into effect the summer 2019, which is anticipated to increase enrollment for 2020.



## Operating Expenses

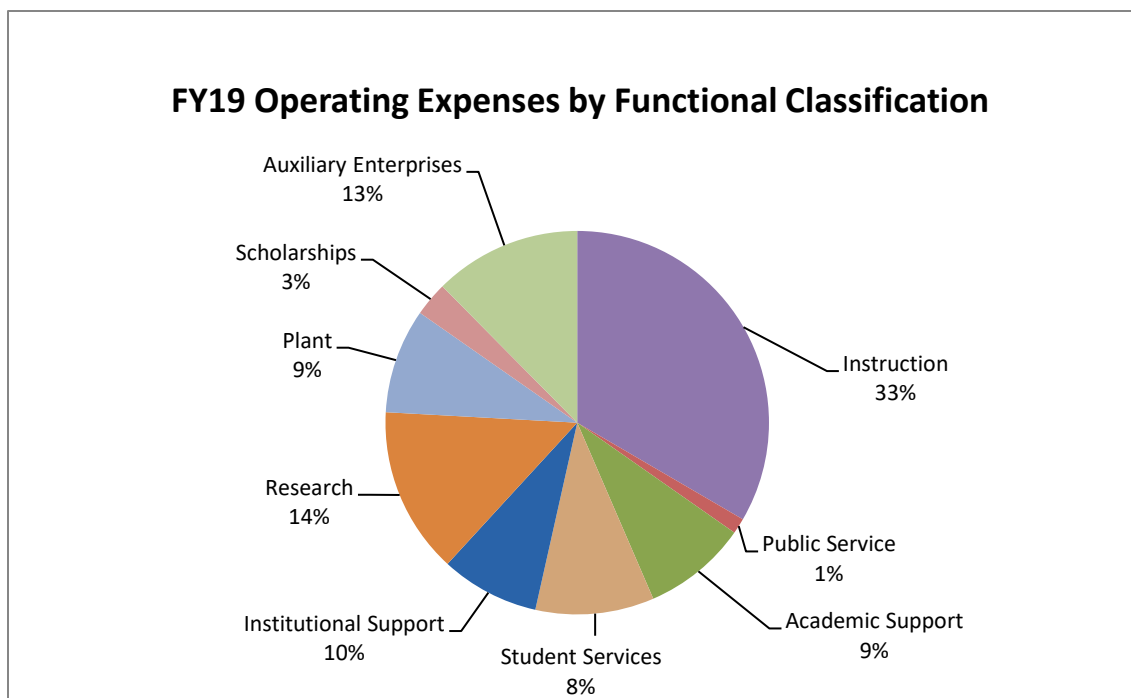
The University reports operating expenses in the natural classification, in the Statement of Revenues, Expenses, and Changes in Net Position.

### Operating Expenses Natural Classification

	<b>2019</b>	<b>2018</b>
Personal Services	\$41,207,743	\$41,025,639
Travel	\$ 1,797,817	\$ 1,728,366
Contractual Services	\$10,718,334	\$10,753,443
Supplies and Materials	\$ 6,445,423	\$ 7,948,581
Grants & Subsidies	\$ 3,582,756	\$ 3,971,485
Other	\$ 139,623	\$ 84,448
Depreciation & Amortization	<u>\$ 4,287,175</u>	<u>\$ 4,243,100</u>
Total Operating Expenses	\$68,178,871	\$69,755,062

- Operating expenses decreased by \$1.5 million, mainly due to a decrease in research grant expenditures of \$1.7 million, offset by slight increases in other expenditures.

In addition to the natural classification of expenses, it is also informative to review operating expenses by function.



Operating expenditures by functional classification remained relatively stable, as compared to FY18. There was a 5 percent decrease in Plant expenditures, offset by a 3% increase in Institutional Support and 2% increases in Instruction and Academic Support. The other categories remained the same or varied by 1 percent.

## Statement of Cash Flows

The statement of cash flows presents information related to cash inflows and outflows. These transactions are classified as operating, non-operating, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations as they mature. A comparative summary of the statement of cash flows for the years ended June 30, 2019 and 2018 is as follows:

<b>Condensed Statement of Cash Flows</b>		
	<u>30-Jun-2019</u>	<u>30-Jun-2018</u>
Cash Provided/Used by:		
Operating Activities	\$(13,031,782)	\$ (10,083,076)
Non-Capital Financing Activities	\$ 19,482,978	\$ 21,488,798
Capital Related Financing Activities	\$ (4,829,517)	\$ (5,993,411)
Investing Activities	<u>\$ 112,747</u>	<u>\$ 111,253</u>
Net increase (decrease) in cash	\$ 1,734,426	\$ 5,523,564
Cash - Beginning of year	<u>\$ 18,537,824</u>	<u>\$ 13,014,260</u>
Cash - End of year	<u><u>\$ 20,272,250</u></u>	<u><u>\$ 18,537,824</u></u>

Major sources of FY19 operating cash included Tuition & Fees and Auxiliaries of \$21 million, Grants and Contracts of \$18 million, and General Sales & Services of \$2 million. The largest use of operating cash was for Personal Services of \$41 million.

The most significant source of cash for non-capital financial activities cash was General Fund Appropriations of \$17 million.

The most significant sources of cash for capital related financing activities were Proceeds from Capital Debt of \$1 million for tablet computers and \$1.3 million from the Higher Education Facilities Fund and General Fund M&R. The most significant uses of cash for capital related financing activities include the Purchase of Capital Assets of \$3.1 million, and debt service payments of \$4.2 million.

## Economic Factors Impacting the Future

University management continues its strategic mission to educate scientists and engineers to address global challenges, innovate to reach our creative potential, and engage in partnerships to transform society.

The University maintains a positive outlook for fiscal year 2020 and beyond. Strategic planning, focused in part on increasing enrollment, should well position SD Mines for the future, both academically and financially. This plan will allow the University to continue providing outstanding service to students, the citizens of South Dakota, the research community, and our country.

In recent years, the demand for higher education services at SD Mines has decreased. That trend is generally consistent with that seen in other public higher education institutions in South Dakota. SD Mines will maintain its focus on the quality of our students and the student experience as well as actively fundraising for scholarship dollars to assist in attracting the best and brightest students to our campus.

State support remains an important revenue source for SD Mines. For FY20, it is expected that the State General Fund appropriations will be increased slightly for maintenance and repair of academic buildings, increased utility costs, and salary policy increases for State funded employees. These limited increases will emphasize the need for the university to focus on fundraising both for scholarship dollars and infrastructure priorities.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, consistent with the national landscape, the University faces rising costs of health benefits for its employees.

The level of future success is dependent upon the ability to recruit and retain the highest quality students, faculty and staff, ongoing financial and political support from state government, cost efficiency, and growth in the research enterprise. While it is not possible to predict the ultimate results, management believes that the University's financial position will remain strong.

*SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY*

**Statement of Net Position**

**June 30, 2019**

	<b>FY2019</b>	<b>FY2018</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 17,611,269.79	\$ 15,829,811.09
Accounts Receivable - Student Accounts (net of allowance FY19, \$389,999; FY18, \$357,007)	472,511.66	381,643.73
Accounts Receivable - Sales and Services	1,122,242.58	1,707,047.83
Notes Receivable	433,832.04	348,195.90
Interest Receivable	263,181.34	167,846.15
Inventories	352,343.76	405,139.68
Due from Federal	2,178,110.31	2,017,585.06
Due from Primary	8,657.72	10,187.55
Due from Component Units	129,355.38	157,652.34
Prepaid Expenses	18,366.90	-
Unamortized Cost of Bond Issuance	-	-
Total Current Assets	<u>22,589,871.48</u>	<u>21,025,109.33</u>
Non-Current Assets:		
Cash and Cash Equivalents	\$ 2,660,979.89	\$ 2,708,012.85
Notes Receivable	1,538,712.97	2,053,170.19
Construction in Progress	3,690,418.39	2,475,481.65
Buildings and Building Improvements (net of accumulated depreciation FY19, \$34,370,450; FY18, \$32,116,609)	74,572,391.40	76,826,232.10
Land	61,872.83	61,872.83
Land Improvements (net of accumulated depreciation FY19, \$1,765,043; FY18, \$1,569,086)	3,442,748.44	3,638,705.35
Infrastructure (net of accumulated depreciation FY19, \$4,139,943; FY18, \$3,878,256)	5,249,010.52	4,989,862.24
Equipment and Other Property (net of accumulated depreciation FY19, \$33,508,708; FY18, \$30,372,481)	7,440,300.08	7,619,006.19
Intangible Assets (net of accumulated amortization FY19, \$3,674)	14,696.36	-
Work in Progress Intangible Asset	-	41,329.08
Total Noncurrent Assets	<u>98,671,130.88</u>	<u>100,413,672.48</u>
<b>TOTAL ASSETS</b>	<u>\$ 121,261,002.36</u>	<u>\$ 121,438,781.81</u>
Deferred Outflows of Resources		
Loss on Debt Refunding	\$ 589,304.07	\$ 629,274.79
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 121,850,306.43</u>	<u>\$ 122,068,056.60</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	1,086,236.61	673,823.13
Accrued Wages & Benefits	694,512.64	775,521.82
Accrued Interest Payable	354,905.00	368,253.13
Compensated Absences Payable	1,800,853.61	1,032,259.51
Bonds Payable	1,414,214.17	1,424,214.17
Obligations under Capital Leases	940,146.16	1,032,459.16
Unearned Revenues	856,361.18	801,686.52
Due to Primary Government	43,555.67	46,709.56
Due to Other Component Units	158,916.80	266,631.90
Funds Held for Others	128,810.19	94,545.95
Student Deposits	151,810.29	145,678.23
Other Accrued Liabilities	105,448.22	36,410.84
Total Current Liabilities	<u>7,735,770.54</u>	<u>6,698,193.92</u>
Non-Current Liabilities:		
Compensated Absences Payable	1,737,846.87	2,369,054.22
Bonds Payable	31,617,039.15	33,031,253.32
Obligations under Capital Leases	1,438,664.49	1,558,177.59
Federal Capital Contribution Advance for Student Loans	1,511,583.00	1,511,583.00
Total Noncurrent Liabilities	<u>36,305,133.51</u>	<u>38,470,068.13</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 44,040,904.05</u>	<u>\$ 45,168,262.05</u>
<b>NET POSITION</b>		
Invested in capital, net of related debt	\$ 61,692,782.93	\$ 61,470,673.23
Restricted, Nonexpendable:		
Loans	1,020,856.96	964,980.89
Restricted, Expendable:		
Debt Service	2,340,750.01	2,708,012.85
Grants and Contracts	193,661.47	-
Unrestricted	12,561,351.01	11,756,127.58
<b>TOTAL NET POSITION</b>	<u>\$ 77,809,402.38</u>	<u>\$ 76,899,794.55</u>

The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION****STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
Cash and Cash Equivalents (Note 2)	\$ 3,262,838	\$ 2,580,231
Investments (Notes 2, 6, and 7)	79,170,113	77,491,485
Unconditional Promises to Give, Net (Note 3)	3,301,296	4,508,571
Lease Receivable (Notes 4 and 8)	313,157	348,577
Rental Real Estate, Net (Notes 5 and 6)	3,662,244	4,064,583
Land and Construction in Process - Alumni Center (Note 12)	4,162,466	402,500
Other Assets (Notes 6 and 7)	1,716,463	1,143,671
<b>TOTAL ASSETS</b>	<b>\$ 95,588,577</b>	<b>\$ 90,539,618</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts Payable, Accrued Support, and Other (Notes 7 and 12)	\$ 1,138,767	\$ 1,235,607
Promise to Give to Others	-	2,262
Liability Under Charitable Remainder Trusts (Note 6)	2,762,011	2,940,145
Liability Under Charitable Gift Annuities (Note 7)	718,665	703,777
Notes Payable (Note 8)	336,737	1,041,387
Total Liabilities	4,956,180	5,923,178
<b>Net Assets</b>		
Without Donor Restrictions	6,951,200	3,176,216
With Donor Restrictions - Purpose and Time (Notes 9 and 11)	20,182,634	21,710,605
With Donor Restrictions - Perpetual (Notes 10 and 11)	63,498,563	59,729,619
Total Net Assets With Donor Restrictions	83,681,197	81,440,224
Total Net Assets	90,632,397	84,616,440
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 95,588,577</b>	<b>\$ 90,539,618</b>

The accompanying notes are an integral part of these statements.

*SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY*

**Statement of Revenues, Expenses, and Changes in Net Position**

**June 30, 2019**

	<b>FY2019</b>	<b>FY2018</b>
<b>Operating Revenues</b>		
Tuition & Fees:		
State Support Tuition Allocation (net of scholarship allowances FY19, \$2,991,610; FY18, \$2,903,381)	\$ 12,396,988.25	\$ 13,828,029.03
Self Support Tuition (net of scholarship allowances FY19, \$169,674; FY18, \$172,374)	832,737.55	820,968.45
Student Fees (net of scholarship allowances FY19, \$1,622,521; FY18, \$1,566,454)	8,387,688.18	8,422,894.21
Auxiliary Sales & Services (net of scholarship allowances FY19, \$1,542,669; FY18, \$1,418,759)	7,672,679.92	7,727,390.25
General Sales & Services	1,876,193.14	1,925,554.41
Federal Grants & Contracts	10,209,080.07	10,637,341.77
State Grants & Contracts	1,763,070.65	2,758,319.58
Private Grants & Contracts	6,329,363.90	6,646,019.34
Student Loan Interest	49,857.59	28,103.52
<b>Total Operating Revenues</b>	<b>49,517,659.25</b>	<b>52,794,620.56</b>
<b>Operating Expenses</b>		
Personal Services	41,207,743.28	41,025,638.56
Travel	1,797,816.55	1,728,366.45
Contractual	10,718,334.07	10,753,443.08
Supplies and Materials	6,445,423.28	7,948,581.29
Grants & Subsidies	3,582,755.91	3,971,484.91
Other	139,623.43	84,447.72
Depreciation	4,283,501.35	4,243,100.18
Amortization of Intangibles	3,674.09	-
<b>Total Operating Expenses</b>	<b>68,178,871.96</b>	<b>69,755,062.19</b>
Operating Loss	(18,661,212.71)	(16,960,441.63)
<b>Nonoperating Revenues (Expenses)</b>		
General Fund Appropriations	16,947,459.78	16,973,820.63
School & Public Lands	134,725.30	133,022.00
Higher Education Facilities Fund	371,094.82	2,170,093.49
Investment Income	201,818.04	109,525.12
PELL Grants	2,029,698.27	2,211,862.40
Interest on capital asset, related debt	(1,641,944.43)	(1,437,880.21)
Bond Issuance & Related Costs	-	(135,900.85)
Loss on Disposal of Assets	(44,065.80)	(717,112.70)
<b>Net Nonoperating Revenues</b>	<b>17,998,785.98</b>	<b>19,307,429.88</b>
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(662,426.73)</b>	<b>2,346,988.25</b>
<b>Other Revenues</b>		
SD Building Authority Bond Proceeds	-	-
HEFF	1,365,369.25	1,680,813.16
Capital Grants & Contracts	200,215.69	567,521.57
BAB Subsidy	6,449.62	86,846.95
<b>Total Other Revenues</b>	<b>1,572,034.56</b>	<b>2,335,181.68</b>
<b>Change in Net Position</b>	<b>909,607.83</b>	<b>4,682,169.93</b>
Net Position - Beginning of the year	76,899,794.55	72,217,624.62
Adjustment to beginning balance	-	-
Net Position - Beginning of year	76,899,794.55	72,217,624.62
<b>Net Position - End of year</b>	<b>\$ 77,809,402.38</b>	<b>\$ 76,899,794.55</b>

The accompanying notes are an integral part of this statement.

**SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2019, WITH COMPARATIVE TOTALS FOR 2018**

	2019				2018
	Without Donor Restrictions	With Donor Restrictions		Total	Total
		Purpose and Time	Perpetual		
<b>Support, Gains, and Revenues</b>					
Contributions	\$ 484,335	\$ 3,994,360	\$ 2,589,220	\$ 7,067,915	\$ 6,723,806
In-Kind Contributions (Note 1)	11,333	64,431,949	-	64,443,282	49,338
Wills and Bequests	144,463	439,600	198,009	782,072	739,540
Net Investment Return, Including Net Realized and Unrealized Gain and Rental Real Estate (Net of Fees and Expenses of \$485,004 and \$658,508 for the Years Ended June 30, 2019 and 2018, Respectively)	703,964	2,084,139	886,025	3,674,128	6,779,246
Unrealized Gain on Trust and Annuity Interests	-	35,473	93,757	129,230	322,037
Other Income	408,630	261,586	1,933	672,149	549,446
Net Assets Released from Restrictions (Note 9)	72,775,078	(72,775,078)	-	-	-
<b>Total Support, Gains, and Revenues</b>	<b>74,527,803</b>	<b>(1,527,971)</b>	<b>3,768,944</b>	<b>76,768,776</b>	<b>15,163,413</b>
<b>Expenses</b>					
<i>Program Services (Note 9)</i>					
Scholarships and Fellowships	2,933,363	-	-	2,933,363	2,636,834
General Student Assistance	347,342	-	-	347,342	462,652
General In-Kind Support to SDSM&T (Note 1)	64,443,282	-	-	64,443,282	49,338
General Support to SDSM&T	1,070,189	-	-	1,070,189	1,411,728
<b>Total Program Services</b>	<b>68,794,176</b>	<b>-</b>	<b>-</b>	<b>68,794,176</b>	<b>4,560,552</b>
<i>Supporting Services:</i>					
Fundraising	1,156,861	-	-	1,156,861	1,079,519
Administrative	801,782	-	-	801,782	821,595
<b>Total Supporting Services</b>	<b>1,958,643</b>	<b>-</b>	<b>-</b>	<b>1,958,643</b>	<b>1,901,114</b>
<b>Total Expenses</b>	<b>70,752,819</b>	<b>-</b>	<b>-</b>	<b>70,752,819</b>	<b>6,461,666</b>
<b>Change in Net Assets</b>	<b>3,774,984</b>	<b>(1,527,971)</b>	<b>3,768,944</b>	<b>6,015,957</b>	<b>8,701,747</b>
<b>Net Assets -- Beginning of Year</b>	<b>3,176,216</b>	<b>21,710,605</b>	<b>59,729,619</b>	<b>84,616,440</b>	<b>75,914,693</b>
<b>Net Assets -- End of Year</b>	<b>\$ 6,951,200</b>	<b>\$ 20,182,634</b>	<b>\$ 63,498,563</b>	<b>\$ 90,632,397</b>	<b>\$ 84,616,440</b>

The accompanying notes are an integral part of this statement.

*SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY*

**Statement of Cash Flows**

**June 30, 2019**

	<b>FY2019</b>	<b>FY2018</b>
<b>Cash Flows from Operating Activities</b>		
Tuition & Fees	\$ 21,458,485.15	\$ 23,023,476.88
Auxiliary Sales & Services	\$ 7,672,939.99	7,728,741.32
Federal Grants and Contracts	\$ 10,094,838.75	\$ 13,076,568.35
Other Grants and Contracts	\$ 8,491,184.85	10,149,336.02
General Sales & Services	\$ 2,117,384.40	1,749,856.44
Other Revenue	\$ 40,323.52	10,091.61
Loans issued to students	\$ -	(340,075.00)
Loans collected from students	\$ 486,914.41	306,850.27
Personal Services	\$ (41,151,365.71)	(41,024,277.32)
Travel	\$ (1,800,970.44)	(1,727,301.96)
Contractual	\$ (10,340,837.01)	(11,100,954.35)
Supplies and noncapitalized equipment	\$ (6,410,994.26)	(7,957,962.25)
Grants & Subsidies	\$ (3,582,755.91)	(3,971,484.91)
Other Expenses	\$ (106,929.70)	(5,941.53)
Net cash provided (used) by operating activities	<u>(13,031,781.96)</u>	<u>(10,083,076.43)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State Appropriations	17,082,185.08	17,106,842.63
Higher Education Facilities Fund	371,094.82	2,170,093.49
PELL Grants	2,029,698.27	2,211,862.40
Direct and PLUS Loan Receipts	11,048,983.00	12,569,167.00
Direct and PLUS Loan Disbursements	<u>(11,048,983.00)</u>	<u>(12,569,167.00)</u>
Net cash flows provided by noncapital financing activities	<u>19,482,978.17</u>	<u>21,488,798.52</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
State Building Authority	-	-
Capital Grants & Contracts	200,215.69	567,521.57
Higher Education Facilities Fund	1,365,369.25	1,680,813.16
Build America Bond Subsidy	6,449.62	86,846.95
Revenue Bond Discounts/Premiums & related costs	(139,243.45)	1,592,448.93
Proceeds from Capital Debt	1,074,000.00	17,085,481.75
Principal Paid on Capital Related Debt	(2,530,826.10)	(10,311,072.37)
Interest Paid on Capital Related Debt	(1,655,292.56)	(1,367,924.59)
Purchase of capital assets	<u>(3,150,189.82)</u>	<u>(15,327,526.57)</u>
Net cash used by capital and related financing activities	<u>(4,829,517.37)</u>	<u>(5,993,411.17)</u>
<b>Cash Flows from Investing Activities</b>		
Investment Income	<u>112,746.90</u>	<u>111,252.78</u>
Net increase in cash	1,734,425.74	5,523,563.70
Cash and Cash Equivalents - Beginning of year	18,537,823.94	13,014,260.24
Cash and Cash Equivalents - End of year	<u>\$ 20,272,249.68</u>	<u>\$ 18,537,823.94</u>
<b>Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities</b>		
Operating Loss	\$ (18,661,212.71)	\$ (16,960,441.63)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,283,501.35	4,243,100.18
Amortization expense	3,674.09	-
Change in assets and liabilities:		
Prepaid Expenses	(18,366.90)	-
Receivables, net	785,795.89	3,047,138.14
Inventories	52,795.92	(9,380.96)
Deferred Revenue	54,674.66	(77,808.85)
Payables, net	467,355.74	(325,683.31)
Net Cash Used by Operating Activities	<u>\$ (13,031,781.96)</u>	<u>\$ (10,083,076.43)</u>
<b>Noncash Transactions</b>		
Loss on Disposal of Capital Assets	\$ (45,765.80)	\$ (728,312.70)
Loan Cancellation Expense	\$ (1,215.21)	\$ (29,049.85)

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Revenue Collected:		
Other Revenue - Contributions	\$ 6,915,202	\$ 6,613,562
Payments for Expenses:		
Personal Services	(1,278,208)	(1,219,089)
Travel	(512,305)	(478,524)
Contractual	(316,519)	(321,754)
Supplies and Materials	(1,074,399)	(893,558)
Grants and Subsidies	(3,581,382)	(3,462,727)
Interest Paid	(21,249)	(229,256)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>131,140</b>	<b>8,654</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sale of Investments	17,629,592	13,660,257
Purchases of Investments	(15,672,320)	(16,836,448)
Change in Notes and Leases Receivable	35,420	(4,449)
Alumni Center Construction in Progress	(3,415,896)	(122,560)
Proceeds from Sale of Rental Real Estate	-	10,790,320
Purchase of Office Equipment	(231,295)	-
Purchase of Rental Property	(138,207)	(310,000)
Proceeds from Sale of Rental Property held in Trust	259,945	-
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>	<b>(1,532,761)</b>	<b>7,177,120</b>
<b>Cash Flows from Financing Activities</b>		
Contributions Restricted for Endowment Purposes	2,781,867	2,071,585
Payments on Notes Payable	(704,650)	(9,014,038)
Increase (Decrease) in Other Liabilities	7,011	(22,727)
<b>Net Cash Flows Provided by (Used in) Financing Activities</b>	<b>2,084,228</b>	<b>(6,965,180)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>682,607</b>	<b>220,594</b>
<b>Cash and Cash Equivalents -- Beginning of Year</b>	<b>2,580,231</b>	<b>2,359,637</b>
<b>Cash and Cash Equivalents -- End of Year</b>	<b>\$ 3,262,838</b>	<b>\$ 2,580,231</b>

**SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

**STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Increase in Net Assets to Net Cash Flows</b>		
<b>Provided by Operating Activities</b>		
Increase in Net Assets	\$ 6,015,957	\$ 8,701,747
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	88,210	106,005
Net Realized and Unrealized Gain on Investments, Property, Trust and Annuity Interests	(3,892,180)	(7,301,980)
Contributions Restricted for Endowment Purposes	(2,787,229)	(1,945,434)
Change in Receivables and Pledges Other Than Endowments	1,177,574	427,282
Change in Payables	(468,930)	226,978
Change in Promise to Give to Others	(2,262)	(205,944)
<b>Net Cash Flows Provided by in Operating Activities</b>	<b>\$ 131,140</b>	<b>\$ 8,654</b>
 <b>Supplemental Schedule of Non-cash Investing and Financing Activities</b>		
Gain on Sale of Rental Real Estate (Note 5)	\$ 99,249	\$ 1,594,012
Construction in Process Included in Accounts Payable (Note 12)	344,070	227,299

The accompanying notes are an integral part of these statements.

## SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

### NOTES TO THE FINANCIAL STATEMENTS

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Basis of Presentation:

The financial statements have been prepared in accordance with the generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public College and Universities*, issued in June and November, 1999. The financial statements include the following elements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and the Notes to the Financials. During the year ended June 30, 2004, South Dakota School of Mines and Technology (SDSM&T) implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units--an amendment of GASB Statement No. 14*.

GASB Statement 39 provides additional guidance to determine whether certain organizations, for which the university is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the university. As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the university, as well as, its component unit, the South Dakota School of Mines and Technology Foundation (Foundation). The financial statements of the component unit are discretely presented in their original format following the financial statements of the university. The component unit financial statements are presented in accordance with SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

In 2014, the university implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify certain items previously reported as assets to deferred outflows of resources; and certain items previously reported as liabilities to deferred inflows of resources.

##### B. Reporting Entity:

SDSM&T was originally established by the Dakota Territorial Legislature in 1885. SDSM&T is a component unit of the State of South Dakota governed by the South Dakota Board of Regents and is included in the State’s general-purpose financial statements.

The Foundation is a legally separate, tax exempt component unit of SDSM&T. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to SDSM&T, in support of its education and research programs. Although, SDSM&T does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereof that the Foundation holds and invests is restricted to the activities of SDSM&T by the donors. During the year ending June 30, 2019, the Foundation distributed \$4,350,894 for scholarships, general student assistance, and general support to SDSM&T. This amount does not include in-kind gifts. Please refer to Note L, Intangible Assets and the Foundation Notes to Financials for information on in-kind contributions.

##### C. Basis of Accounting:

For reporting purposes, SDSM&T is considered a special-purpose government engaged only in business-type activities. The accompanying financial statements are presented on the accrual basis of accounting, including recognition of depreciation expense on capital assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liability is incurred. Interdepartmental charges are treated as a transfer of expense.

**D. Fund Accounting:**

In order to ensure observance of the limitations and restrictions placed on the use of resources available to SDSM&T, accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources 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 accounts are maintained for each fund. However, in the accompanying financial statements, all fund groups have been combined and reported as a single net asset total.

**E. Accounts Receivable:**

Accounts receivable from students is funds owed SDSM&T for outstanding tuition and fee charges. The allowance write-off method is used for uncollectible student receivables. Under the allowance method, a reserve is established for the projected amount that will become uncollectible. Student Receivables, as of June 30, 2019 were \$868,218 with an allowance for uncollectible accounts of \$389,998 and a net student receivable of \$478,220. The South Dakota Bureau of Finance and Management (BFM) approved write offs of student accounts in the amount of \$1,810 for FY19.

Accounts receivable for Sales and Service includes non-Federal grant and contract receivables, in the amount of \$685,598, as of June 30, 2019. The remainder of this receivable consists of refundable deposits, travel advances and other receivables, unrelated to grants. The direct write-off method is used for uncollectible receivables for sales and service.

**F. Notes Receivable:**

Notes receivable consists of those receivables associated with the Perkins Loan Program. When a Perkins student loan is deemed uncollectible, it is assigned to the Department of Education. The direct write-off method is used for these uncollectible loans.

**G. Investments:**

SDSM&T 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 determined for these funds. Other cash and temporary investments were redefined as non-participating during fiscal year 1985. Interest earned from these funds is under control of the State Treasurer and is credited to the State of South Dakota's General Fund, not to SDSM&T. The University receives interest earnings from the State for funds considered participating. Participating funds include Renewals and Replacement, Retirement of Indebtedness, Unexpended Plant, the Perkins Student Loan program, unexpended federal grant revenues, and auxiliary revenues.

**H. Inventories:**

Inventories of supplies and materials, which are purchased for resale, are valued at original cost or last invoice price. Changes in inventory valuations are reported as a portion of expenditures. Departments reporting resale inventories include the Rocker Shop (bookstore), Museum Gift Shop, University Chemical Storeroom, and Geology Map Sales.

**I. Due to/Due from:**

Due from Federal represents expenditures made on federal grants for which reimbursement has not been received, as of June 30, 2019. Due from Other Component Units represents funds receivable from other South Dakota public universities and the SD Board of Regents. Due To Other Component Units represent funds payable to other South Dakota public universities and the SD Board of Regents. Due to and Due from Primary represents funds receivable or payable to various South Dakota state agencies, outside of the Higher Education Regental system.

**J. Capital Assets:****1. Equipment and Library Materials:**

Equipment is capitalized when the unit cost is \$5,000 or more and has a useful life of a year or more. These capitalization criteria became effective at the beginning of FY2000. Equipment is depreciated using the straight-line basis over the estimated useful life of the property. SDSM&T has incorporated the estimated useful life tables developed by the South Dakota Bureau of Finance and Management for equipment. Equipment includes library books, which are added to the inventory listing at cost during the year of their purchase. The library collection is depreciated using the composite method of depreciation based on a 10-year useful life.

**2. Buildings and Building Improvements:**

Buildings and land are capitalized at cost at the time of purchase or, if constructed, the in-service date. Major additions and renovations to buildings are capitalized when the addition/renovation increases the value by \$100,000 or more. Depreciation is computed for buildings and improvements using the straight-line basis over the estimated useful life of the property. The useful life for buildings has been estimated at 50 years and the useful life for building improvements has been estimated at 20 years.

**3. Infrastructure and Land Improvements:**

Infrastructure and land improvements are also capitalized at cost at the time of purchase or, if contributed, at the appraised value at the date of the gift. Major additions to infrastructure and land improvements are capitalized when the addition/improvement increases the value by \$50,000 or more. Depreciation for infrastructure and land improvements is calculated using the straight-line basis over an estimated useful life of 20 to 50 years depending on the property.

**4. Construction in Progress:**

Major additions to plant assets, which are not yet completed at year end, are included in the financial statements, as construction in progress. When the major additions are completed, the capitalized cost is transferred to the appropriate capital asset category, buildings, equipment, land improvement, or infrastructure.

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 61,872.83	\$ -	\$ -	\$ 61,872.83
Land Improvements	\$ 5,207,791.75	\$ -	\$ -	\$ 5,207,791.75
Infrastructure	\$ 8,868,118.58	\$ 520,834.67	\$ -	\$ 9,388,953.25
Buildings	\$ 108,942,841.36	\$ -	\$ -	\$ 108,942,841.36
Equipment & other property	\$ 37,917,505.82	\$ 1,404,721.19	\$ (616,962.53)	\$ 38,705,264.48
Library materials	\$ 2,213,317.91	\$ 34,355.85	\$ (3,930.40)	\$ 2,243,743.36
Total	\$ 163,211,448.25	\$ 1,959,911.71	\$ (620,892.93)	\$ 164,550,467.03
Less accumulated depreciation:				
Land Improvements	\$ 1,569,086.40	\$ 195,956.91	\$ -	\$ 1,765,043.31
Infrastructure	\$ 3,878,256.34	\$ 261,686.39	\$ -	\$ 4,139,942.73
Buildings	\$ 32,116,609.26	\$ 2,253,840.70	\$ -	\$ 34,370,449.96
Equipment & other property	\$ 30,372,480.62	\$ 1,556,851.32	\$ (571,196.73)	\$ 31,358,135.21
Library materials	\$ 2,139,336.92	\$ 15,166.03	\$ (3,930.40)	\$ 2,150,572.55
Total	\$ 70,075,769.54	\$ 4,283,501.35	\$ (575,127.13)	\$ 73,784,143.76
Capital Assets, net	\$ 93,135,678.71	\$ (2,323,589.64)	\$ (45,765.80)	\$ 90,766,323.27

**K. Museum Collection:**

The Museum of Geology collection, which has been acquired through excavations, contributions, and purchases, since the early 1900's, is not recognized as an asset in the preceding financial statements. The collection, made up of fossil specimens, rocks, and minerals, is displayed for public exhibition and education. Proceeds from any sale of a collection item can only be used to purchase other items for the collection.

**L. Intangible Assets:**

During Fiscal Year 2019, the South Dakota School of Mines and Technology (SDSM&T), received a donation of multiple three-year software licenses from Schlumberger Company. The total list price of the software licenses, as provided by Schlumberger Company, was \$64,431,009. The related maintenance on the software licenses was also donated to SDSM&T, and the list value provided by Schlumberger for this service was \$38,658,609. Because of the specialized nature of the software, the inability to determine service capacity, and the lack of available market information on it, a fair market value for the licenses placed in operation could not be reasonably estimated. As such, the software licenses and maintenance agreement, along with the related revenue and expense, were not reported in the SDSM&T financial statements. The software value is included in the SDSM&T Foundation financials as an in-kind donation.

In June 2019, LogRhythm Enterprise software licenses were purchased from High Point Networks, LLC for the university system by the Board of Regents at a cost of \$242,909. The software expense was billed back to the universities and installed during early FY19. Each university began to amortize their share of the software as an intangible asset in FY19. SDSM&T's share of the software is \$18,370. This is being amortized over 5 years.

**M. Net Position:**

SDSM&T net position is classified as follows:

- Invested in capital, net of related debt represents total capitalized assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings related to those assets, plus unspent bond proceeds.
- Restricted net position, expendable, represent funds that have externally imposed constraints, which legally or contractually obligate SDSM&T to spend the resources in accordance with the restrictions imposed by the third party.
- Restricted net position, non-expendable, is subject to externally imposed stipulations that allow SDSM&T to permanently maintain them.
- Unrestricted net position represents resources derived from student tuition and fees, sales and services, state appropriations, and auxiliary enterprises. These resources are used for the ongoing educational and general operations of SDSM&T.

**N. Scholarship Allowances and Student Aid:**

Tuition, fee, and auxiliary revenues have been reduced by the amount that was paid for by student financial aid, (i.e. PELL grants, SEOG, and scholarships, etc.) and reported net of scholarship allowance. This method of reporting eliminates the double reporting of student aid revenue, first as financial aid, then as tuition and fee revenue. The allowance amount was estimated using a method prescribed by NACUBO, which is based on a simple proportionality algorithm. As a result, certain amounts reported as financial aid revenue have been deducted as an allowance against tuition and related revenues.

**O. Revenue Recognition:**

Accrual basis accounting is used for these financial statements; therefore, revenues are recognized when earned. Restricted grant revenue is recognized only to the extent expended. Unspent grant revenues are reported, on the Statement of Net Position, as unearned revenue.

**P. Operating and Non-operating Revenues:**

Operating revenues consist of tuition and fees, grants and contracts (where there is a direct exchange of product or services), sales and services from institutional activities, loan fund, and auxiliary enterprise revenues. Non-operating revenues include state appropriations, capital and non-capital financing activities, and investment income.

**II. CASH AND CASH EQUIVALENTS**

For reporting purposes, cash includes cash on hand, cash in local banks, and cash on deposit with the State Treasurer's Office.

**III. RETIREMENT PLAN**

SDSM&T participates in a mandatory retirement program administered by the South Dakota Retirement System. Employer-paid expenditures under this program for the year end June 30, 2019 were \$1,649,110.

**IV. STATE APPROPRIATIONS**

The General fund appropriation amount on the financials is reflective of the amount spent during the fiscal year. The State General Fund appropriation for FY19 was \$16,980,613. SDSM&T reverted unspent funds, in the amount of \$33,153 back to the General fund.

**V. TUITION AND HEFF**

SDSM&T received tuition revenue in the amount of \$19,122,211, during fiscal year 2019. Of this amount, \$2,201,351 was remitted to the Board of Regents and deposited into the Higher Education Facilities Fund (HEFF). An additional \$115,788 was remitted to the Board for technology and the Electronic University Consortium. The HEFF revenue reported on these statements reflects only the amount of maintenance and repair (M&R) revenues spent in FY19. SDSM&T spent \$1,106,625 from the HEFF pool and an additional \$629,839 from the Board of Regents General Fund appropriation for facility M&R. These amounts are combined on the HEFF non-operating and capital revenue lines in the financial report.

**VI. ENDOWMENT AND SIMILAR FUNDS**

The assets of the endowment and similar funds administered by the SD Department of School and Public Lands have not been included in these financial statements. SDSM&T is not involved in the administration of these funds.

**VII. FUNDS HELD FOR OTHERS**

Funds, held for others, represents cash held by SDSM&T, as a custodian, for student organizations and other organizations affiliated with the university.

**VIII. LONG TERM DEBT AND OTHER OBLIGATIONS**

Revenue Bonds were authorized by the Board of Regents to finance the construction of a new residence hall, the remodeling of the student center and two residence halls, and an addition of a Recreation Wellness Center to the King Center. Principal and interest on long-term debt are payable from auxiliary operating revenues and general activity fees. Net revenues pledged to the bond debt for FY19 is \$3,399,566.

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Revenue Bonds, Payable					
Series 2008B	\$2,600,000	\$0	(\$210,000)	\$2,390,000	\$220,000.00
Series 2009	\$375,000	\$0	(\$375,000)	\$0	\$0
Series 2014A	\$6,170,000	\$0	(\$180,000)	\$5,990,000	\$185,000.00
Series 2014B	\$5,410,000	\$0	(\$255,000)	\$5,155,000	\$265,000.00
Series 2017	\$16,715,000	\$0	(\$225,000)	\$16,490,000	\$565,000.00
Lease Obligations	\$2,590,637	\$1,074,000	(\$1,285,826)	\$2,378,811	\$940,146
Total Long-Term Debt	\$33,860,637	\$1,074,000	(\$2,530,826)	\$32,403,811	\$2,175,146
Compensated Absences	\$3,401,314	\$1,423,517	(\$1,286,131)	\$3,538,700	\$1,800,854
Federal Portion of Loan Programs	\$1,511,583	\$0	\$0	\$1,511,583	\$0
Total Long-Term Debt & Obligations	\$38,773,533	\$2,497,517	(\$3,816,957)	\$37,454,093	\$3,976,000

Revenue bond payables, as of June 30, 2019, are as follows:

Housing and Auxiliary Facilities Revenue Bonds, Series 2008B

Surbeck Center Remodel

Date of Issuance: November 4, 2008

Bond Proceeds: \$4,135,000

Interest rate: 4.55%

Term: 20 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2014A

Recreation/Wellness Center

Date of Issuance: January 9, 2014

Bond Proceeds: \$6,820,000

Variable Interest rate: 3%-4.75%

Term: 25 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2014B

Refunding of Series 2003 bond, Peterson Hall construction and Surbeck Center remodel

Date of Issuance: September 16, 2014

Bond Proceeds: \$6,470,000

Variable Interest rate: 3%-5%

Term: 19 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2017

Partial refunding of Series 2009 bond, Placer Hall purchase

Date of Issuance: December 21, 2017

Bond Proceeds: \$16,715,000

Variable Interest rate: 3%-5%

Term: 25 years

The bonds payable are reported on the Statement of Net Position, net of bond premiums and discounts, as shown below:

	Total Bonds Payable	Short Term Portion	Long Term Portion
Bonds Payable	\$30,025,000	\$1,235,000	\$28,790,000
Premium	\$3,006,253	\$179,214	\$2,827,039
Original Issue Discount	\$0	\$0	\$0
Per Statement of Net Position	\$33,031,253	\$1,414,214	\$31,617,039

**Long-Term Leases, Payable** includes the lease of the President's house, owned by the Foundation, in the amount of \$336,706, leases for tablet computers purchased for our students, in the amount of \$1,830,181, and a lease for residence hall furniture in the amount of \$211,924.

The annual requirements to amortize all long-term leases outstanding, as of June 30, 2019, are as follows:

Fiscal Year	Principal	Interest	Total
FY2020	\$ 940,146.17	\$ 88,537.39	\$ 736,448.16
FY2021	\$ 858,073.72	\$ 50,283.67	\$ 616,121.99
FY2022	\$ 305,340.49	\$ 19,777.07	\$ 32,882.16
FY2023	\$ 275,250.28	\$ 2,778.50	\$ 278,028.78
FY2024	\$ -	\$ -	\$ -
FY2025-2029	\$ -	\$ -	\$ -

**Federally funded loans** to students (Perkins Loan Program) have been determined to be a long-term liability, payable to the federal government, if the Perkins Loan Program is ever dissolved.

**Compensated absences**, annual and sick leave, is accrued as it is earned by employees. Upon termination, employees are eligible to receive compensation for their accrued leave balance. Effective July 1, 1979, any employee who had 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 shall receive payment for one-fourth of their accumulated sick leave balance. Such payment is not to exceed the sum of twelve weeks of the employee's annual compensation. The liability and corresponding expense are reflected in these financial statements, calculated at the employees' June 21, 2019 pay rate.

Obligations also exist for lease payments to the SD Building Authority (SDBA) for renovation and building projects funded through bond proceeds issued by SDBA. Disclosure information including the amount of lease payments, interest rates and balances remaining on the leases is reported by the South Dakota Building Authority and is not included on the university statements. The payments for these leases are made from the Higher Education Facilities fund.

**IX. OPERATING LEASES**

SDSM&T has entered into operating lease agreements for copiers, student housing, and space used for instructional and research purposes. The copier leases were renewed on a three-year lease, in FY18. The university is currently leasing two buildings for student housing from Technology Housing, LLC. This lease was initiated in August 2014 for a period of 10 years. The remaining amount on this lease is \$6,528,000. The university also has leases for space in the Foundation and Black Hills Business Development Center. Lease payments are reported as operating expense. A summary of changes in operating leases follows:

<u>Balance</u> <u>7/1/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2019</u>
<u>\$ 7,959,093</u>	<u>\$369,347</u>	<u>\$(1,468,094)</u>	<u>\$6,860,346</u>

The following is a schedule of SDSM&T's aggregate minimum payments for existing operating leases for each of the succeeding five years ending June 30.

2020	\$ 1,417,996
2021	\$ 1,391,681
2022	\$ 1,351,982
2023	\$ 1,285,551
2024	\$ 1,285,135
Thereafter	\$ 128,000

**X. FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION**

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other Expense	Depreciation	Total
Instruction	\$19,829,752	\$520,705	\$399,243	\$821,397	\$4,840	\$60,003	\$1,140,002	\$22,775,942
Research	\$5,507,795	\$373,094	\$475,107	\$403,190	\$1,647,868	\$18	\$1,169,913	\$9,576,985
Public Service	\$560,528	\$21,260	\$55,354	\$242,061	\$0	\$0	\$14,357	\$893,561
Academic Support	\$3,377,209	\$57,207	\$891,854	\$1,434,395	\$0	\$13	\$234,221	\$5,994,900
Student Services	\$4,500,920	\$670,116	\$651,249	\$601,207	\$1,930	\$1,075	\$393,522	\$6,820,019
Institutional Support	\$3,810,680	\$107,654	\$1,444,259	\$163,664	\$0	\$34,801	\$106,025	\$5,667,083
O&M of Plant	\$2,625,412	\$39,946	\$1,092,837	\$1,601,374	\$0	\$6,029	\$655,978	\$6,021,575
Scholarships and Fellowships	\$0	\$0	\$0	\$0	\$1,928,118	\$37,565	\$0	\$1,965,683
Auxiliary Enterprises	\$995,448	\$7,835	\$5,708,431	\$1,178,136	\$0	\$119	\$573,156	\$8,463,124
Total	\$41,207,743	\$1,797,817	\$10,718,334	\$6,445,423	\$3,582,756	\$139,623	\$4,287,175	\$68,178,872

## **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018**

#### **(1) Summary of Significant Accounting Policies**

##### ***Operations***

The South Dakota School of Mines and Technology Foundation (the Foundation) is organized as a South Dakota nonprofit corporation and operates exclusively for charitable and educational purposes. Its activities are to solicit and manage gifts, money, and property exclusively for educational, scientific, and cultural purposes, and to promote and support education and research through the South Dakota School of Mines and Technology (SDSM&T).

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include the present value of Liability under Charitable Remainder Trusts, present value of Liability under Charitable Gift Annuities, present value of Unconditional Promises to Give, and allowance for uncollectible Unconditional Promises to Give. It is at least reasonably possible that these estimates will change in the near term.

##### ***Basis of Presentation***

The financial statements of the Foundation are prepared using the accrual basis of accounting. The classification of net assets, revenues and expenses, and gains and losses is based on the existence or absence of donor-imposed restrictions. Amounts of each of the two classes of net assets (without donor restrictions and with donor restrictions) are displayed in the Statements of Financial Position and the Statement of Activities and Changes in Net Assets.

##### ***Investments***

The Foundation accounts for its investment securities at fair market value with changes in fair market value accounted for in the Statement of Activities and Changes in Net Assets. Net investment return includes both realized and unrealized gains and losses on investment securities, trust and annuity interests, and rental income and expenses derived from rental real estate. Realized gains and losses from sales of securities are determined on a specific identity basis. Unrealized gains and losses are recognized in the Statement of Activities and Changes in Net Assets to the extent of the change in aggregate market value of investments at the end of each accounting period.

Donated investments (which may include stocks, bonds, and real estate) are recorded as revenues at estimated fair market value on the date of contribution.

##### ***Contributions and Promises to Give***

The Foundation records its contributions received as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

## **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### ***Contributions and Promises to Give (Continued)***

Unconditional promises to give are recognized as revenues in the period pledged. Amounts due after more than one year are recorded at their present value using a discount rate of primarily four percent, per annum. An estimate for uncollectible promises has been presented based on management's judgment, experience with donors, and historical losses.

Beneficial interests in trust gifts and charitable gift annuities are recorded as contributions (whether the Foundation acts as trustee or not) as net assets with donor restriction at the fair market value of the trusts' assets.

On an annual basis, the Foundation revalues the "Liability under Charitable Remainder Trusts" and the "Liability under Charitable Gift Annuities" based on actuarial assumptions and present value calculations. For trusts, this liability consists of unearned net investment return, as well as future payments to designated beneficiaries. For charitable gift annuities, this liability consists of the present value of a stream of fixed-annuity payments. The present value of the estimated future payments is calculated using a discount rate and applicable mortality tables. Generally, the Foundation uses three discount rates depending upon the life of the trust or annuity. Discount rates for trusts or annuities with estimated lives of 1 to 5 years, 6 to 15 years, and over 15 years are 4.00 percent, 5.20 percent, and 5.60 percent, respectively, for the years ended June 30, 2019 and 2018. The change in fair value of these assets is recorded annually in the Statement of Activities and Changes in Net Assets as "Unrealized Gain on Trust and Annuity Interests." Net investment return received from the trusts or annuities during the year is recorded as net investment return with or without donor restriction in the Statement of Activities and Changes in Net Assets as required by the donors.

##### ***In-Kind Contributions***

The Foundation records various types of in-kind support, including products and services, at fair market value at the time of the gift. Professional services received are recognized as revenue if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses and total **\$64,443,282** and **\$49,338** for the years ended June 30, 2019 and 2018, respectively.

##### ***Depreciation***

Equipment, software, leasehold improvements, and building purchases exceeding \$5,000 are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Office Equipment	3-7
Purchased Software	5
Leasehold Improvements	15
Buildings	40

Equipment and related accumulated depreciation are **\$460,516** and **\$173,375**, respectively, for the year ended June 30, 2019, and **\$271,499** and **\$198,571**, respectively, for the year ended June 30, 2018.

## **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### ***Federal Income Tax***

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been determined by the Internal Revenue Service to be a “public foundation” (rather than a “private foundation” within the meaning of Section 509(a) of the Code). No federal income tax is paid unless net income is derived from activities that are unrelated to exempt activities. There are no such activities conducted.

At June 30, 2019, the Foundation believes no significant uncertain tax positions or liabilities exist.

##### ***Functional Allocation of Expenses***

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses based on the purpose achieved by each expenditure. Most expenses can be directly allocated to program or supporting functions. Certain categories of expenses that are attributable to more than one supporting function require allocation on a reasonable basis that is consistently applied. These expense are allocated on estimates of time and effort based on historical time studies.

##### ***Statements of Cash Flows***

The Foundation defines cash and cash equivalents to include money market funds. The Foundation excludes certificates of deposit (CDs), and investments in stocks, bonds, and government securities, as these are intended to be long-term investments. Throughout the fiscal year, cash balances have exceeded federally insured limits; however, the Foundation has not experienced losses in these accounts and believes there is no significant credit risk.

##### ***Rental Real Estate***

Rental real estate investments are presented at historical cost less depreciation.

The Foundation evaluates its rental real estate for potential impairment losses when indicators of impairment are present and the carrying amount of long-lived assets exceeds its fair value. In addition, useful lives of long-lived assets are reviewed annually. The Foundation evaluated rental real estate at June 30, 2019, based on anticipated proceeds. Management anticipates no impairment losses.

##### ***Subsequent Events***

The Foundation has evaluated significant subsequent events through October 1, 2019, the date which the financial statements were available to be issued.

##### ***Accounting Standard Adopted***

In August 2016, the Financial Accounting Standards Board, (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to provide more useful information to financial statement users. The changes provided by this update improve the net asset classification requirements, and the information provided in the financial statements and notes about the Foundation’s liquidity, cash flows, expenses, and investment return. The ASU has been applied retrospectively to all periods presented. There was no impact to net asset balances.

## **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018**

#### **(1) Summary of Significant Accounting Policies (Concluded)**

##### ***Emerging Accounting Standards***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The ASU outlines five steps to achieve proper revenue recognition: identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies the performance obligation. This standard is effective for annual reporting periods beginning after December 15, 2018. The Foundation will be evaluating the impact implementation will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes FASB ASC Topic 840, Leases and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. With regards to lessors, the new standard requires lessors to classify leases as sales-type, direct financing, or operating leases based on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. A lessor is precluded from recognizing income at lease commencement if control is not transferred. In addition, no differentiation exists between leases of real estate and leases of other assets. The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which will assist entities in determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. This determination is based on whether or not the resource provider is receiving commensurate value in return for resources transferred, and clarifies that executing the mission or providing societal benefit does not equate to commensurate value. The standard will also assist entities in determining whether a contribution is conditional on the basis of whether a barrier must be overcome and either a right of return of assets transferred or a right of release of the promisor from its obligation to transfer assets exists. The standard is effective for contributions received in annual periods beginning after December 15, 2018 and for contributions made in annual periods beginning after December 15, 2019. The Foundation is currently evaluating the impact this standard will have on the financial statements.

In August 2018, the FASB issued ASU 2018-13, Changes to Disclosure Requirements for Fair Value Measurements, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for years beginning after December 15, 2019. The Company will be evaluating the impact this standard will have on the financial statements.

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

### (2) Investments

Investments consist of the following investment types at June 30:

	2019		2018	
	Fair Market Value	Cost	Fair Market Value	Cost
Money Market Funds included in Cash and Cash Equivalents	\$ 3,008,415	\$ 3,008,415	\$ 2,353,442	\$ 2,353,442
Government Securities/Corporate Bonds/CDs	7,155,263	7,180,833	8,723,462	8,720,833
Bond Funds	23,325,291	23,033,666	17,919,890	18,198,760
Stocks	1,158,239	835,478	956,466	749,483
Stock Funds	39,705,895	33,130,613	41,725,178	35,630,864
Alternatives	2,822,773	1,469,329	3,285,929	1,676,928
Real Estate Funds	5,002,652	2,523,198	4,880,560	2,524,827
Total Investments	79,170,113	68,173,117	77,491,485	67,501,695
	\$ 82,178,528	\$ 71,181,532	\$ 79,844,927	\$ 69,855,137

The fair values of debt securities and certificates of deposit at June 30, by contractual maturity, are shown below:

	2019	2018
Due in one year or less	\$ 5,152,111	\$ 6,450,000
Due after one year through five years	2,000,000	2,270,437
Due after five years through ten years	-	-
Due after ten years	3,152	3,025
	\$ 7,155,263	\$ 8,723,462

Fair value is defined as the 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. The three-level fair value hierarchy is defined as follows:

- Level One: Observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded investments with quoted market prices.
- Level Two: Inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: Inputs are based on prices or valuation techniques that are unobservable. The types of assets and liabilities included in Level Three require significant management judgment or estimation.

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

### (2) Investments (Continued)

The Foundation uses the Net Asset Value (NAV) to determine the fair value of underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. There are investments based on the Foundation's evaluation of independent pricing sources, which utilize various modeling and valuation techniques, such as net asset valuations. Significant unobservable inputs are inherent in the nature of these investments.

The following tables present the assets carried at fair value as of June 30, 2019 and 2018, on the accompanying Statements of Financial Position by fair value hierarchy, as described above. All are measured on a recurring basis. The Foundation carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

June 30, 2019	Level One	Level Two	Level Three	NAV per Share	Total
Money Market Funds included in					
Cash and Cash Equivalents	\$ 3,008,415	\$ -	\$ -	\$ -	\$ 3,008,415
Gov Sec/Corp Bonds/CDs	-	-	-	7,155,263	7,155,263
Bond Funds	23,325,291	-	-	-	23,325,291
Illiquid Credit	-	-	-	958,213	958,213
Private Equity	-	-	-	1,864,560	1,864,560
Real Estate Funds	176,495	-	-	4,826,157	5,002,652
Large-Cap Equity Funds	17,562,593	-	-	-	17,562,593
Small/Mid-Cap Equity Funds	6,280,420	-	-	-	6,280,420
International Equity Funds	14,875,250	-	-	-	14,875,250
Balanced Mutual Funds	987,632	-	-	-	987,632
Large-Cap Stock	1,125,765	-	-	-	1,125,765
International Stock	32,474	-	-	-	32,474
	<b>\$ 67,374,335</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,804,193</b>	<b>\$ 82,178,528</b>
June 30, 2018	Level One	Level Two	Level Three	NAV per Share	Total
Money Market Funds included in					
Cash and Cash Equivalents	\$ 2,353,442	\$ -	\$ -	\$ -	\$ 2,353,442
Gov Sec/Corp Bonds/CDs	-	-	-	8,723,462	8,723,462
Bond Funds	17,919,890	-	-	-	17,919,890
Low-Correlated Hedge Funds	-	-	-	162,298	162,298
Illiquid Credit	-	-	-	1,114,278	1,114,278
Private Equity	-	-	-	2,009,353	2,009,353
Real Estate Funds	172,411	-	-	4,708,149	4,880,560
Large-Cap Equity Funds	17,829,469	-	-	-	17,829,469
Small/Mid-Cap Equity Funds	7,234,484	-	-	-	7,234,484
International Equity Funds	15,847,719	-	-	-	15,847,719
Balanced Mutual Funds	813,506	-	-	-	813,506
Large-Cap Stock	919,435	-	-	-	919,435
International Stock	37,031	-	-	-	37,031
	<b>\$ 63,127,387</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,717,540</b>	<b>\$ 79,844,927</b>

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

### (2) Investments (Concluded)

The following tables list investments valued using NAV by major category:

<b>June 30, 2019</b>	<b><u>Fair Value</u></b>	<b><u>Unfunded</u> <u>Commitments</u></b>	<b><u>Redemption</u> <u>Frequency</u></b>	<b><u>Redemption</u> <u>Notice Period</u></b>
Gov Sec/Corp Bonds/CDs	\$ 7,155,263	\$ -	Daily	3 Days
Illiquid Credit	958,213	684,310	**	N/A
Private Equity	1,864,560	800,018	*	N/A
Real Estate Funds	4,826,157	-	Quarterly	60 Days
	<b>\$ 14,804,193</b>	<b>\$ 1,484,328</b>		

<b>June 30, 2018</b>	<b><u>Fair Value</u></b>	<b><u>Unfunded</u> <u>Commitments</u></b>	<b><u>Redemption</u> <u>Frequency</u></b>	<b><u>Redemption</u> <u>Notice Period</u></b>
Gov Sec/Corp Bonds/CDs	\$ 8,723,462	\$ -	Daily	3 Days
Low-Correlated Hedge Funds	162,298	-	Annually	61 to 100 Days
Illiquid Credit	1,114,278	684,310	**	N/A
Private Equity	2,009,353	846,018	*	N/A
Real Estate Funds	4,708,149	-	Quarterly	60 Days
	<b>\$ 16,717,540</b>	<b>\$ 1,530,328</b>		

\* Private Equity Funds can be redeemed between years ending December 31, 2019 and 2022, with the possibility of extensions until 2025.

\*\* Illiquid Credit has a 12-year life expectancy with two one-year extensions possible. Funds are expected to be completed by 2025.

### (3) Unconditional Promises to Give

The Foundation receives promises to give through their capital and annual campaigns, as well as through corporate and personal spontaneous gifts. Unconditional promises to give are as follows at June 30:

	<b><u>2019</u></b>	<b><u>2018</u></b>
Receivable in less than one year	\$ 1,053,729	\$ 1,496,488
Receivable in one to five years	1,088,179	1,879,624
Receivable in six years	1,945,000	1,977,100
	<b>4,086,908</b>	<b>5,353,212</b>
Less discounts to net present value	581,266	576,980
Less allowance for uncollectible promises	204,346	267,661
<b>Net Promises to Give</b>	<b>\$ 3,301,296</b>	<b>\$ 4,508,571</b>

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

### (4) Notes and Leases Receivable

The Foundation leases property used as a residential home for the President of SDSM&T to the Board of Regents for a term of fifteen years. The Board of Regents agrees to provide funds to pay the related bank debt (see Note 8), insurance, and any other expenses incurred on the property. The Board of Regents has the option to acquire the title to the property provided all outstanding obligations and debts against the property have been satisfied. The Foundation has recorded this transaction as a direct financing-type lease. The net investment in the lease recorded as a receivable at June 30, 2019 and 2018, is **\$313,157** and \$348,577, respectively. Income recognized on the lease was **\$13,925** and \$12,115 during the years ended June 30, 2019 and 2018, respectively.

Principal payments will be collected as follows for the years ending June 30:

2020	\$	19,835
2021		20,668
2022		21,497
2023		22,300
2024		23,100
Thereafter		205,757
	<b>\$</b>	<b>313,157</b>

### (5) Rental Real Estate

Rental real estate consists of the following at June 30:

	2019	2018
Land, at cost	\$ 1,386,817	\$ 1,509,607
Buildings, at cost	2,683,950	2,942,953
Real estate partnership interest, at cost	469,766	469,766
	4,540,533	4,922,326
Accumulated depreciation	(878,289)	(857,743)
Net Book Value	<b>\$ 3,662,244</b>	<b>\$ 4,064,583</b>

The Foundation leases these properties primarily to SDSM&T and its students under operating leases with various lease terms.

### (6) Charitable Remainder Trusts

Irrevocable trust gifts consist of the following at June 30 (see also Note 2):

	2019			2018		
	Market Value	Recorded Net Asset Value	Liability Under Trusts	Market Value	Recorded Net Asset Value	Liability Under Trusts
Charitable Unitrusts	\$ 6,071,678	\$ 3,971,205	\$ 2,100,473	\$ 6,118,138	\$ 3,846,167	\$ 2,271,971
Charitable Annuity Trusts	1,125,654	464,116	661,538	1,126,896	458,722	668,174
	<b>\$ 7,197,332</b>	<b>\$ 4,435,321</b>	<b>\$ 2,762,011</b>	<b>\$ 7,245,034</b>	<b>\$ 4,304,889</b>	<b>\$ 2,940,145</b>

# **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2019 AND 2018**

### **(6) Charitable Remainder Trusts (Continued)**

During the year ended June 30, 2019, there were no new trusts and no terminations. The Foundation is the remainderman for 96 percent of the market value listed above for each of the years ended June 30, 2019 and 2018.

Trust assets held by the Foundation are included in the following areas of the Statements of Financial Position at June 30:

	----- Market Value -----	
	<b>2019</b>	<b>2018</b>
Investments	\$ 7,180,753	\$ 7,015,890
Rental Real Estate	-	210,000
Other Assets	18,970	19,144
Accounts Payable	(2,391)	-
	<b>\$ 7,197,332</b>	<b>\$ 7,245,034</b>

### **(7) Liability under Charitable Gift Annuities**

Charitable gift annuities consist of the following (see also Note 2):

	<b>2019</b>	<b>2018</b>
Market Value	\$ 1,778,608	\$ 1,696,210
Present Value Discount	1,059,943	992,433
<b>Liability Under Charitable Gift Annuities</b>	<b>\$ 718,665</b>	<b>\$ 703,777</b>

During the year ended June 30, 2019, there was one new annuity with a fair market value of \$100,000 and a present value of \$58,831. The Foundation is remainderman for 100 percent of the market value listed above for each of the years ended June 30, 2019 and 2018.

Charitable gift annuity assets held by the Foundation are included in the following areas in the Statements of Financial Position at June 30:

	<b>2019</b>	<b>2018</b>
Investments	\$ 1,778,061	\$ 1,695,310
Other Assets	991	900
Accounts Payable	(444)	-
	<b>\$ 1,778,608</b>	<b>\$ 1,696,210</b>

# **SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)** **JUNE 30, 2019 AND 2018**

### **(8) Notes Payable**

Notes payable consists of the following at June 30:

	<b>2019</b>	<b>2018</b>
Mortgage note payable to a bank, due in quarterly payments of \$8,221, including interest at 3.95 percent through July 31, 2022; when the remaining balance of approximately \$275,000 is due; secured by the residence of the President of SDSM&T (Note 4).	<b>\$ 336,737</b>	<b>\$ 355,387</b>
Paid in Full during 2019	<b>-</b>	<b>686,000</b>
	<b>336,737</b>	<b>1,041,387</b>
Current maturities of notes payable	<b>19,835</b>	<b>-</b>
	<b>\$ 316,902</b>	<b>\$ 1,041,387</b>

Notes payable mature as follows during the years ended June 30:

2020	<b>\$ 19,835</b>
2021	<b>20,668</b>
2022	<b>21,497</b>
2023	<b>274,737</b>
	<b>\$ 336,737</b>

### **(9) Net Assets With Donor Restrictions - Purpose and Time**

Net assets with purpose restrictions are available for the following purposes at June 30:

	<b>2019</b>	<b>2018</b>
Scholarships and Fellowships	<b>\$ 5,541,226</b>	<b>\$ 5,344,770</b>
General Student Assistance	<b>1,149,206</b>	<b>1,040,713</b>
General Support to SDSM&T	<b>12,031,062</b>	<b>12,651,345</b>
Pledge Donations - Timing Restriction - Determined by Donor at Later Date	<b>1,461,140</b>	<b>2,673,777</b>
	<b>\$ 20,182,634</b>	<b>\$ 21,710,605</b>

Substantially all net investment return earned on purpose restricted net assets is recorded in net assets with donor restriction – purpose. In addition, net investment return from perpetually restricted net assets, which is available for expenditure to program support of SDSM&T, is reported in these funds.

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

### (9) Net Assets With Donor Restrictions – Purpose and Time (Continued)

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	2019	2018
<i>Purpose of Restriction Accomplished:</i>		
Scholarships and Fellowships	\$ 2,933,363	\$ 2,588,084
General Student Assistance	347,342	462,652
General Support to SDSM&T	5,051,091	1,810,210
In-Kind Contributions (Note 1)	64,443,282	49,338
	<u>\$ 72,775,078</u>	<u>\$ 4,910,284</u>

### (10) Net Assets With Donor Restrictions - Perpetual

Net assets with perpetual restrictions consist of the following at June 30:

	2019	2018
Scholarships and Fellowships	\$ 41,139,064	\$ 37,983,142
General Student Assistance	2,198,490	2,116,068
General Support to SDSM&T	18,320,853	17,795,615
Pledge Donations	1,840,156	1,834,794
	<u>\$ 63,498,563</u>	<u>\$ 59,729,619</u>

In accordance with agreements with donors, net investment return, including realized and unrealized gains, is allocated in part to the perpetually restricted funds to provide for inflationary growth of the funds. The agreements provide for realized and unrealized investment losses to be deducted from principal. In such cases, the Foundation's intent and understanding with donors is to restore such losses with future gains.

### (11) Endowed Net Assets

The Foundation is governed subject to the Investment Policy Statement adopted by the Board of Directors, and most contributions are received subject to the terms of this statement. Under the terms of the Investment Policy Statement, the Board of Directors has the ability to allocate earnings to spending and to fund accumulation. Funds held for accumulation are considered net assets with donor restrictions - perpetual (which may be reduced in a year with investment losses).

The Board of Directors of the Foundation has interpreted the State of South Dakota 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 net assets with donor restrictions – perpetual (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of 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 net assets with donor restrictions – perpetual is classified as net assets with donor restrictions - purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

### (11) Endowed Net Assets (Continued)

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's net assets with donor restriction - perpetual meet the definition of endowment funds under UPMIFA.

In accordance with UPMIFA, the Foundation 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 effects of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the foundation;
- The investment policies of the foundation.

The following represents endowment net asset composition by type of fund as of June 30, 2019 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
Donor Restricted Endowment Funds	\$ -	\$ 4,893,108	\$ 59,729,619	\$ 64,622,727
Donor Purpose Restricted and Board Endowed	-	921,533	-	921,533
<b>Endowment Assets - June 30, 2018</b>	<b>-</b>	<b>5,814,641</b>	<b>59,729,619</b>	<b>65,544,260</b>
Donor Restricted Endowment Funds	-	5,494,938	63,498,563	68,993,501
Donor Purpose Restricted and Board Endowed	-	931,359	-	931,359
<b>Endowment Assets - June 30, 2019</b>	<b>\$ -</b>	<b>\$ 6,426,297</b>	<b>\$ 63,498,563</b>	<b>\$ 69,924,860</b>

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
<b>Endowment Assets - June 30, 2017</b>	\$ -	\$ 5,111,563	\$ 55,287,049	\$ 60,398,612
Net Investment Return	-	1,910,795	2,282,746	4,193,541
Unrealized Gain on Trusts/Annuities	-	-	214,391	214,391
Contributions	-	-	2,114,723	2,114,723
Reclassification	-	169,290	(169,290)	-
Appropriation for Expenditure	-	(1,377,007)	-	(1,377,007)
<b>Endowment Assets - June 30, 2018</b>	<b>-</b>	<b>5,814,641</b>	<b>59,729,619</b>	<b>65,544,260</b>
Net Investment Return	-	2,084,139	886,025	2,970,164
Unrealized Gain on Trusts/Annuities	-	-	93,757	93,757
Contributions	-	-	2,789,162	2,789,162
Appropriation for Expenditure	-	(1,472,483)	-	(1,472,483)
<b>Endowment Assets - June 30, 2019</b>	<b>\$ -</b>	<b>\$ 6,426,297</b>	<b>\$ 63,498,563</b>	<b>\$ 69,924,860</b>

## SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2019 AND 2018

#### (11) Endowed Net Assets (Concluded)

The Foundation has adopted investment and spending policies for endowment assets that attempt to maximize support while growing the endowment's principal value to maintain spending value compared to appropriate inflationary indexes. To achieve these goals, the Foundation Board annually authorizes spending and accumulation allocations that are transferred to each funding account. Spending allocations for fiscal years 2019 and 2018 were based on a 12-quarter rolling fund average. Total earnings are spread based on the beginning of the quarter fund balance. The amount posted to accumulation is the actual earnings less the spending allocation.

For fiscal years 2019 and 2018, included in the allocation of net investment return above are amounts to fund the stated purposes of endowment which total **\$2,159,069** and \$1,982,885, respectively.

#### (12) Construction Commitment

During the year ended June 30, 2018, the Foundation began construction of the Alumni Center building for SDSM&T. The building was substantially complete as of June 30, 2019. A final construction payable of **\$344,070** is included in accounts payable on the accompanying Statement of Net Position at June 30, 2019.

#### (13) Liquidity

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions.

The Foundation considers net investment return both with and without donor restrictions and donor contributions both with and without donor restrictions, as available for use in current programs which are ongoing, major, and central to its annual operations. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

<i>Financial Assets at year end:</i>	
Cash and Cash Equivalents	\$ 3,262,838
Unconditional Promises to Give	3,301,296
Investments	79,170,113
<b>Total Financial Assets</b>	<b>\$ 85,734,247</b>
<i>Less amounts not available to be used within one year:</i>	
Net Assets with Donor Restriction	\$ 83,681,197
Donor Restricted Net Assets Include:	
Rental Real Estate	(3,662,244)
Other Assets included in Trust and CGA Investments	(19,961)
<b>Financial Assets Not Available to be Used Within One Year</b>	<b>\$ 79,998,992</b>
<b>Financial Assets Available to Meet General Expenditures Within One Year</b>	<b>\$ 5,735,255</b>