SOUTH DAKOTA
M
SCHOOL OF MINES & TECHNOLOGY

2016

FINANCIAL REPORT
January 31, 2017

Dr. Michael G. Rush
Executive Director
South Dakota Board of Regents
306 East Capitol Avenue
Pierre, SD 57501-2545

Dear Dr. Rush:

I am pleased to forward the financial statements for South Dakota School of Mines and Technology for fiscal year 2016.

This report includes all phases of the financial transactions for the South Dakota School of Mines and Technology for the period covered.

Sincerely,

Heather A. Wilson
President

Enclosure
January 31, 2017

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

Dear Dr. Wilson:

The annual financial report for South Dakota School of Mines and Technology for the fiscal year ended June 30, 2016 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 as a whole. Based on the provisions of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, the SDSM&T Foundation’s financial statements, audited by an independent certified public account, are included as part of this report since it is considered a component unit of SDSM&T.

All state fund expenditures are under the continuous pre-audit control of the State Auditor and all accounts are under the post-audit of the Auditor General. The financial operations of SDSM&T are audited as part of the State of South Dakota. An audit opinion is not issued on the separately issued statements of SDSM&T, but rather on the audited Comprehensive Annual Financial Report of the State of South Dakota.

Sincerely,

F. Stephen Malott  
Vice President, Finance and Administration

Enclosure
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SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY  
Rapid City, South Dakota

FINANCIAL REPORT

For the Year Ended June 30, 2016

REGENTS OF EDUCATION
Randy Schaefer, President, Madison
Bob Sutton, Vice President, Pierre
Kevin Schieffer, Secretary, Sioux Falls
Harvey C. Jewett, Aberdeen
John W. Bastian, Belle Fourche
Jim Morgan, Brookings
Kathryn Johnson, Hill City
Pam Roberts, Pierre
Conrad Adam, Pierre

Office of the Board of Regents
Michael G. Rush, Executive Director & CEO
Monte Kramer, System Vice President for Finance and Administration

South Dakota School of Mines and Technology
Executive Administration

Dr. Heather Wilson, President
Dr. Demitris Kouris, Provost and Vice President for Academic Affairs
Frank Stephen Malott, Vice President for Finance and Administration
Dr. Jan Puszynski, 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
Frank Stephen Malott, Vice President for Finance and Administration
Heather Forney, Director of Finance and Administration/Controller
Debra Rowse, Assistant Controller
SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY
Management’s Discussion and Analysis

This section of South Dakota School of Mines and Technology’s (SD Mines) annual financial report presents management’s discussion and analysis of the University’s financial operations during the fiscal year ended June 30, 2016, along with comparative data for the fiscal year ended June 30, 2015. The discussion and analysis should be read in conjunction with the accompanying financial statements and footnotes. The accuracy of the financial statements, footnote disclosures, and discussion are the responsibility of management.

Based upon the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units, it has been determined that the South Dakota School of Mines and Technology Foundation is a component unit of the University. In accordance with GASB 39, the financial statements of the Foundation are included in this report. Independent auditors, engaged by the Foundation’s Board of Directors, audit the Foundation’s financial information. The University has no control or management responsibility over the Foundation funds.

Reporting Entity

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) 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. An audit opinion is not issued on the individual statements of the University, but rather on the audited Comprehensive Annual Financial Report of the State of South Dakota.

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

The statements required by GASB Statement No. 35 as amended by GASB Statement No. 63 and GASB Statement No. 65 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 presents information on all of the University’s assets, deferred outflows of resources, liabilities and deferred inflows with the difference between them being reported as net position which is one way of measuring the University’s financial position. Changes in net position are an indicator of the improvement or erosion of the University’s financial health when considered with non-financial measurements, such as enrollment levels and the condition of the facilities serving the students.
The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are reported as either operating or non-operating. In accordance with GASB Statement 35 reporting model requirements, state appropriations are reported as non-operating revenues, resulting in 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.

**Condensed 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, with the exception of capital assets, which are stated at cost, less accumulated depreciation.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>30-Jun-2016</th>
<th>30-Jun-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$16,423,166</td>
<td>$9,567,571</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>$86,957,874</td>
<td>$84,448,553</td>
</tr>
<tr>
<td>Deferred outflow of resources</td>
<td>$60,514</td>
<td>$64,108</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows</strong></td>
<td><strong>$103,441,554</strong></td>
<td><strong>$94,080,232</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>$8,338,180</td>
<td>$9,292,995</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>$29,550,926</td>
<td>$30,228,340</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$37,889,106</strong></td>
<td><strong>$39,521,334</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET POSITION</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>$57,623,192</td>
<td>$53,760,915</td>
</tr>
<tr>
<td>Restricted</td>
<td>$2,522,965</td>
<td>$2,932,831</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$5,406,291</td>
<td>$(2,134,848)</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$65,552,448</strong></td>
<td><strong>$54,558,898</strong></td>
</tr>
</tbody>
</table>

- Total assets increased by $9.4 million, due to a $6.9 million net increase in cash and a $2.5 million increase in physical plant assets.
- SD Mines’ largest asset is its investment in physical plant, representing $78 million of noncurrent assets.
- Liabilities decreased $1.6 million due to payments of bond and loan obligations.
- SD Mines’ largest liability is revenue bonds payable of $24 million.
**Condensed 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. GASB reporting standards require state appropriations to be classified as non-operating revenues, resulting in a net operating loss. An allowance for depreciation expense is included in the financial statements, which is the amortization of the cost of capital assets over their estimated useful life.

<table>
<thead>
<tr>
<th></th>
<th>30-Jun-2016</th>
<th>30-Jun-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$51,794,587</td>
<td>$51,894,336</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$64,964,649</td>
<td>$65,287,867</td>
</tr>
<tr>
<td>Operating Loss</td>
<td>($13,170,062)</td>
<td>($13,393,531)</td>
</tr>
<tr>
<td>Non-Operating Revenues</td>
<td>$19,658,885</td>
<td>$18,419,261</td>
</tr>
<tr>
<td>Non-Operating Expenses</td>
<td>$2,082,547</td>
<td>$1,783,675</td>
</tr>
<tr>
<td>Net Loss before capital contributions</td>
<td>$4,406,276</td>
<td>$3,242,055</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>$6,587,274</td>
<td>$5,230,134</td>
</tr>
<tr>
<td>Increase(Decrease) in Net Position</td>
<td>$10,993,550</td>
<td>$8,472,189</td>
</tr>
<tr>
<td>Net Position, Beginning of Year</td>
<td>$54,558,898</td>
<td>$46,086,709</td>
</tr>
<tr>
<td>Net Position, End of Year</td>
<td>$65,552,448</td>
<td>$54,558,898</td>
</tr>
</tbody>
</table>

- Operating revenues and expenses were fairly flat compared to FY15.

- State appropriations, totaling $16.4 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 $1.2 million from the Higher Education Facilities fund, $4.5 million from SD Building Authority Bond Proceeds, $700 thousand from Capital Grants, and $171 thousand from the Build American Bond Subsidy in FY16; for projects including the renovation of the Chemical Engineering building, utility infrastructure upgrades, capital equipment and deferred maintenance.
Revenues

The chart below is an illustration of SD Mines' major revenue sources, for the year ended June 30, 2016:

**FY16 Source of Revenues**

Tuition and state appropriations are the primary sources of funding for the institution's academic program, representing approximately 52% of overall revenues.

Net student tuition and fee revenue increased $1.5 million (6.2%) in FY16. This increase is attributable to a slight increase in FTE enrollment and an increase in student fee rates.

Increasing enrollment is a strategic priority of the university. SD Mines is allocating additional resources to new recruiting strategies and increasing scholarships.

The effects of these strategies have resulted in an increase of enrollment in 4 of the last 5 years, including fiscal year 2016, with hopes of continued increases over the next 5 years.
Operating Expenses

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

<table>
<thead>
<tr>
<th>Natural Classification</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services</td>
<td>$39,388,095</td>
<td>$38,866,198</td>
</tr>
<tr>
<td>Travel</td>
<td>$1,539,294</td>
<td>$1,430,112</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>$9,921,998</td>
<td>$10,577,731</td>
</tr>
<tr>
<td>Supplies and Materials</td>
<td>$6,112,889</td>
<td>$6,356,953</td>
</tr>
<tr>
<td>Grants &amp; Subsidies</td>
<td>$3,639,021</td>
<td>$3,677,755</td>
</tr>
<tr>
<td>Other</td>
<td>$119,694</td>
<td>$95,563</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$4,243,658</td>
<td>$4,283,556</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$64,964,649</td>
<td>$65,287,867</td>
</tr>
</tbody>
</table>

Operating expenses decreased $300 thousand in FY16, mainly due to decreases in contractual service and supply expenses of $900 thousand, offset by an increase in Personal Services of $500 thousand and an increase in travel expenses of $100 thousand.
In addition to the natural classification of expenses, it is also informative to review operating expenses by function.

**FY16 Operating Expenses by Functional Classification**

![Pie chart showing FY16 operating expenses by functional classification]

Overall operating expenses decreased in FY16. The most significant decreases were in the Academic Support ($660 thousand) and Plant ($1 million) categories, offset by increases in Research ($820 thousand) and Auxiliary ($428 thousand) expenditures. Net change of the rest of the functional classes was less than $121 thousand.

**Condensed 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, 2016 and 2015 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>30-Jun-2016</th>
<th>30-Jun-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Provided/Used by:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Activities</td>
<td>$ (9,757,354)</td>
<td>$(11,112,054)</td>
</tr>
<tr>
<td>Non-Capital Financing Activities</td>
<td>$ 19,532,166</td>
<td>$ 18,107,008</td>
</tr>
<tr>
<td>Capital Related Financing Activities</td>
<td>$ (3,887,154)</td>
<td>$ (9,562,948)</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>$ 136,855</td>
<td>$ 86,565</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash</strong></td>
<td>$ 6,024,513</td>
<td>$ 5,369,376</td>
</tr>
<tr>
<td><strong>Cash - Beginning of year</strong></td>
<td>$ 5,349,260</td>
<td>$ 2,461,313</td>
</tr>
<tr>
<td><strong>Cash - End of year</strong></td>
<td>$ 11,373,773</td>
<td>$ 7,830,689</td>
</tr>
</tbody>
</table>
SD Mines experienced an increase to its cash balance by approximately $6 million compared to the end of last fiscal year 2015. This was largely a result of a decrease of cash spent on operating activities ($1.3 million) and a decrease in the purchase of capital assets ($5.7 million), offset by a $1 million cash increase in non-capital financing activities.

**Economic Factors Impacting the Future**

Strategic planning, focused on increasing enrollment, research awards and Foundation support, along with incremental tuition and fee increases, 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.

SD Mines’ FTE enrollment has increased 20%, since Fall 2010. This upward trend is expected to continue for the next several years.

State support remains an important revenue source for SD Mines. For FY17, it is expected that the State General Fund appropriations will be impacted by economic pressures.

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.
## Statement of Net Position

**June 30, 2016**

### ASSETS

**Current Assets:**
- Cash and Cash Equivalents: $9,379,967.21 / $2,460,036.08
- Accounts Receivable - Student Accounts (net of allowance FY16, $263,474; FY15, $196,759): $427,346.33 / $315,974.10
- Accounts Receivable - Sales and Services: $1,692,176.03 / $1,132,890.00
- Notes Receivable: $327,722.64 / $393,779.33
- Interest Receivable: $179,808.07 / $189,186.89
- Inventories: $537,070.72 / $568,445.25
- Due from Federal: $3,224,516.26 / $4,040,981.81
- Due from Primary: $48,299.84 / $23,206.27
- Due from Component Units: $602,249.89 / $441,917.49
- Prepaid Expenses: **-** / **-**
- Unamortized Cost of Bond Issuance: $4,283.51 / $4,283.51

**Total Current Assets:** $16,423,166.05 / $9,587,570.73

**Non-Current Assets:**
- Cash and Cash Equivalents: **$1,994,116.12 / $2,883,222.17**
- Notes Receivable: **2,046,059.36 / 1,956,127.02**
- Unamortized Cost of Bond Issuance: **72,819.76 / 77,103.27**
- Construction in Progress: **4,626,618.49 / 2,389,367.00**
- Buildings and Building Improvements (net of accumulated depreciation FY16, $379,944,330; FY15, $265,141,531): **62,837,422.67 / 63,773,265.20**
- Land: **91,342.03 / 61,342.83**
- Land Improvements (net of accumulated depreciation FY16, $2,206,896; FY15, $1,104,332): **2,741,900.46 / 2,568,803.01**
- Infrastructure (net of accumulated depreciation FY16, $3,370,274; FY15, $1,148,779): **4,812,852.02 / 2,007,562.10**
- Equipment and Other Property (net of accumulated depreciation FY16, $36,711,412; FY15, $30,404,397): **7,761,740.60 / 8,701,766.77**

**Total Noncurrent Assets:** $103,381,040.33 / $94,516,124.17

**Deferred Outflows of Resources:**
- Loss on Debt Refunding: **$90,513.64 / 64,108.51**

**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:** $103,441,553.97 / $94,580,232.62

### LIABILITIES

**Current Liabilities:**
- Accounts Payable: **672,763.60 / 934,362.60**
- Accrued Wages & Benefits: **904,474.10 / 876,006.15**
- Accrued Interest Payable: **308,920.63 / 317,937.20**
- Compensated Absences Payable: **1,977,120.69 / 949,136.40**
- Bonuses Payable: **987,807.05 / 967,899.09**
- Obligations under Capital Leases: **708,049.86 / 954,842.32**
- Unearned Revenues: **1,530,797.05 / 1,077,932.12**
- Due to Primary Government: **41,300.24 / 51,664.51**
- Due to Other Component Units: **1,830,590.54 / 2,745,960.59**
- Funds Held for Others: **80,491.91 / 111,313.29**
- Student Deposits: **124,454.18 / 118,973.28**
- Other Accrued Liabilities: **56,890.05 / 189,038.31**

**Total Current Liabilities:** **8,338,179.57 / 9,292,994.62**

**Non-Current Liabilities:**
- Compensated Absences Payable: **2,461,585.70 / 2,514,492.25**
- Bonuses Payable: **24,102,581.45 / 25,100,470.50**
- Obligations under Capital Leases: **1,484,903.18 / 1,101,792.89**
- Federal Capital Contribution Advance for Student Loans: **1,511,583.00 / 1,511,583.00**

**Total Noncurrent Liabilities:** $29,450,926.39 / $36,228,339.64

**TOTAL LIABILITIES:** **$37,889,105.96 / 39,521,334.46**

### NET POSITION

Involved in capital, net of related debt: **$67,623,192.28 / 53,790,913.40**

Restricted, Nonexpendable:
- Loans: **628,600.82 / 893,856.77**
- **Restricted, Expendable:**
  - Debt Service: **1,590,364.35 / 2,039,173.91**
  - Unrestricted: **5,406,290.26 / (2,134,847.92)**

**TOTAL NET POSITION:** **$65,552,447.71 / 54,556,862.18**

The accompanying notes are an integral part of this statement.
SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents (Note 2)</td>
<td>$3,480,770</td>
<td>$2,401,175</td>
</tr>
<tr>
<td>Investments (Notes 2, 6, and 7)</td>
<td>58,796,762</td>
<td>62,395,972</td>
</tr>
<tr>
<td>Unconditional Promises to Give, Net (Note 3)</td>
<td>5,418,850</td>
<td>5,117,121</td>
</tr>
<tr>
<td>Notes and Leases Receivable (Notes 4 and 8)</td>
<td>359,695</td>
<td>373,346</td>
</tr>
<tr>
<td>Rental Real Estate, Net (Notes 5, 6, and 8)</td>
<td>12,494,426</td>
<td>5,698,453</td>
</tr>
<tr>
<td>Other Assets (Notes 6 and 7)</td>
<td>2,984,189</td>
<td>825,237</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$83,534,692</strong></td>
<td><strong>$76,211,304</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable, Accrued Support, and Other (Notes 6 and 7)</td>
<td>$1,091,779</td>
<td>$1,513,486</td>
</tr>
<tr>
<td>Construction Payable (Note 9)</td>
<td>1,055,891</td>
<td>-</td>
</tr>
<tr>
<td>Promise to Give to Others</td>
<td>467,522</td>
<td>638,641</td>
</tr>
<tr>
<td>Liability Under Charitable Remainder Trusts (Note 6)</td>
<td>3,386,761</td>
<td>3,770,320</td>
</tr>
<tr>
<td>Liability Under Charitable Gift Annuities (Note 7)</td>
<td>738,115</td>
<td>767,482</td>
</tr>
<tr>
<td>Notes Payable (Note 8)</td>
<td>7,873,620</td>
<td>1,084,201</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>14,613,688</strong></td>
<td><strong>7,774,130</strong></td>
</tr>
</tbody>
</table>

**Net Assets**

| Unrestricted                                             | 1,129,118 | 1,902,716 |
| Temporarily Restricted (Notes 10 and 12)                 | 18,736,822 | 15,536,902 |
| Permanently Restricted (Notes 11 and 12)                 | 49,055,064 | 50,997,556 |
| **Total Net Assets**                                     | **68,921,004** | **68,437,174** |

**TOTAL LIABILITIES AND NET ASSETS**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>$83,534,692</strong></td>
<td><strong>$76,211,304</strong></td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition &amp; Fees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Support Tuition Allocation</td>
<td>$8,615,268.65</td>
<td>$8,178,825.23</td>
</tr>
<tr>
<td>(net of scholarship allowances FY16, $1,755,837; FY15, $1,386,280)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self Support Tuition</td>
<td>762,306.09</td>
<td>642,288.25</td>
</tr>
<tr>
<td>(net of scholarship allowances FY16, $165,819; FY15, $109,020)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Fees</td>
<td>14,234,783.29</td>
<td>13,311,274.20</td>
</tr>
<tr>
<td>(net of scholarship allowances FY16, $2,297,763; FY15, $2,220,863)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary Sales &amp; Services</td>
<td>7,200,256.39</td>
<td>7,400,297.06</td>
</tr>
<tr>
<td>(net of scholarship allowances FY16, $1,337,513; FY15, $1,130,642)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Sales &amp; Services</td>
<td>1,334,520.09</td>
<td>1,550,304.43</td>
</tr>
<tr>
<td>Federal Grants &amp; Contracts</td>
<td>11,100,526.85</td>
<td>10,518,445.65</td>
</tr>
<tr>
<td>State Grants &amp; Contracts</td>
<td>2,786,054.80</td>
<td>2,573,032.94</td>
</tr>
<tr>
<td>Private Grants &amp; Contracts</td>
<td>5,726,275.00</td>
<td>5,025,571.58</td>
</tr>
<tr>
<td>Student Loan Interest</td>
<td>34,534.55</td>
<td>37,942.05</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>51,794,556.51</td>
<td>49,272,961.09</td>
</tr>
</tbody>
</table>

| **Operating Expenses**       |            |            |
| Personal Services            | 39,368,055.20 | 38,866,197.86 |
| Travel                       | 1,539,294.33  | 1,430,111.67 |
| Contractual                  | 9,921,997.53  | 10,577,305.84 |
| Supplies and Materials       | 6,112,889.26  | 6,356,952.73  |
| Grants & Subsidies           | 3,639,020.69  | 3,678,179.72  |
| Other                        | 119,683.27    | 95,562.61     |
| Depreciation                 | 4,243,658.42  | 4,283,556.48  |
| **Total Operating Expenses** | 64,964,648.70 | 65,287,866.89 |
| **Operating Loss**           | (13,170,062.19) | (16,014,905.80) |

| **Nonoperating Revenues (Expenses)** |            |            |
| General Fund Appropriations    | 16,414,051.51 | 17,048,303.04 |
| School & Public Lands          | 133,022.00    | 136,603.51   |
| Higher Education Facilities Fund | 621,222.02     | 922,101.91  |
| Investment Income              | 126,718.03    | 136,920.93   |
| BAB Subsidy                    | 171,415.73    | 175,331.96  |
| PELL Grants                    | 2,363,810.67  | 2,521,374.95 |
| Interest on capital asset, related debt | (1,361,550.29) | (1,321,195.70) |
| Bond Issuance & Related Costs  | (4,283.51)    | (101,251.83) |
| Loss on Disposal of Assets     | (716,712.72)  | (361,228.16) |
| **Net Nonoperating Revenues**  | 17,747,753.44 | 19,258,960.61 |

| **Income Before Other Revenues, Expenses, Gains, or Losses** |            |            |
| SD Building Authority Bond Proceeds | 4,472,306.07 | 1,562,995.24 |
| HEFF                                 | 1,214,007.59 | 930,540.40 |
| Capital Grants & Contracts           | 729,544.84   | 2,736,598.60 |
| **Change in Net Position**           | 10,993,549.55 | 8,472,189.05 |

| Net Position - Beginning of the year | 54,558,898.16 | 46,086,709.11 |
| Adjustment to beginning balance     |               |               |
| Net Position - Beginning of year    | 54,558,898.16 | 46,086,709.11 |
| **Net Position - End of year**      | $65,552,447.71 | $54,558,898.16 |

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, 2016, WITH COMPARATIVE TOTALS FOR 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Support, Gains, and Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$559,955</td>
<td>$5,476,011</td>
<td>$1,169,916</td>
<td>$7,205,882</td>
<td>$5,085,802</td>
</tr>
<tr>
<td>In-Kind Contributions (Note 1)</td>
<td>5,020</td>
<td>173,836,207</td>
<td>-</td>
<td>173,841,227</td>
<td>694,628</td>
</tr>
<tr>
<td>Wills and Bequests</td>
<td>43,411</td>
<td>19,600</td>
<td>146,951</td>
<td>209,962</td>
<td>225,206</td>
</tr>
<tr>
<td>Investment Income (Loss), Including Net Realized and Unrealized Gain (Loss) and Rental Real Estate (Net of Fees and Expenses of $523,288 and $615,587 for the Years Ended June 30, 2016 and 2015, Respectively)</td>
<td>131,518</td>
<td>1,629,285</td>
<td>(3,233,645)</td>
<td>(1,472,842)</td>
<td>1,111,728</td>
</tr>
<tr>
<td>Unrealized Loss on Trust and Annuity Interests</td>
<td></td>
<td>(113,729)</td>
<td>(25,714)</td>
<td>(139,443)</td>
<td>(87,298)</td>
</tr>
<tr>
<td>Other Income</td>
<td>322,122</td>
<td>403,703</td>
<td>-</td>
<td>725,825</td>
<td>618,299</td>
</tr>
<tr>
<td>Net Assets Released from Restrictions (Note 10)</td>
<td>178,051,157</td>
<td>(178,051,157)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Support, Gains, and Revenues</td>
<td>179,113,183</td>
<td>3,199,920</td>
<td>(1,942,492)</td>
<td>180,370,611</td>
<td>7,648,365</td>
</tr>
</tbody>
</table>

Expenses:

Program Services (Note 10)

Scholarships and Fellowships                        | 2,423,107                     | -                             | -                            | 2,423,107                     | 2,243,579  |
General Student Assistance                         | 335,047                       | -                             | -                            | 335,047                       | 275,659    |
General In-Kind Support to SDSM&T (Note 1)         | 173,841,227                   | -                             | -                            | 173,841,227                   | 694,628    |
General Support to SDSM&T                           | 1,452,851                     | -                             | -                            | 1,452,851                     | 1,895,528  |
Total Program Services                              | 178,052,232                   | -                             | -                            | 178,052,232                   | 5,109,394  |

Supporting Services:

Fundraising                                        | 1,063,221                     | -                             | -                            | 1,063,221                     | 1,084,066  |
Administrative                                     | 771,328                       | -                             | -                            | 771,328                       | 641,571    |
Total Supporting Services                           | 1,834,549                     | -                             | -                            | 1,834,549                     | 1,725,637  |

Total Expenses                                      | 179,886,781                   | -                             | -                            | 179,886,781                   | 6,835,031  |

Change in Net Assets

(773,598)                                          | 3,199,920                     | (1,942,492)                   | 483,830                       | 813,334                       |

Net Assets -- End of Year                           | $1,129,118                    | $18,736,822                   | $49,055,064                   | $68,921,004                   | $68,437,174 |

The accompanying notes are an integral part of this statement.

16
# Statement of Cash Flows

**June 30, 2016**

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition &amp; Fees</td>
<td>$23,396,432.87</td>
<td>$22,067,200.02</td>
</tr>
<tr>
<td>Grants and Contracts</td>
<td>20,262,036.26</td>
<td>16,755,656.82</td>
</tr>
<tr>
<td>Auxiliary Sales &amp; Services</td>
<td>7,199,982.51</td>
<td>7,404,227.36</td>
</tr>
<tr>
<td>General Sales &amp; Services</td>
<td>1,164,206.48</td>
<td>1,740,227.39</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>34,157.99</td>
<td>45,441.59</td>
</tr>
<tr>
<td>Loans issued to students</td>
<td>(361,813.49)</td>
<td>(402,665.65)</td>
</tr>
<tr>
<td>Loans collected from students</td>
<td>324,998.37</td>
<td>334,229.80</td>
</tr>
<tr>
<td>Personal Services</td>
<td>(39,300,258.45)</td>
<td>(38,843,522.27)</td>
</tr>
<tr>
<td>Travel</td>
<td>(1,549,658.60)</td>
<td>(1,487,534.11)</td>
</tr>
<tr>
<td>Contractual</td>
<td>(11,204,979.93)</td>
<td>(11,464,719.30)</td>
</tr>
<tr>
<td>Supplies and noncapitalized equipment</td>
<td>(6,081,523.73)</td>
<td>(6,390,703.27)</td>
</tr>
<tr>
<td>Grants &amp; Subsidies</td>
<td>(3,639,020.69)</td>
<td>(3,678,170.72)</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>(2,443.35)</td>
<td>(13,098.29)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td><strong>(9,757,353.71)</strong></td>
<td><strong>(13,733,429.63)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Noncapital Financing Activities</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>16,547,073.51</td>
<td>17,184,906.55</td>
</tr>
<tr>
<td>Higher Education Facilities Fund</td>
<td>621,232.02</td>
<td>922,101.91</td>
</tr>
<tr>
<td>PELL Grants</td>
<td>2,363,810.67</td>
<td>2,621,374.95</td>
</tr>
<tr>
<td>Direct and PLUS Loan Receipts</td>
<td>13,120,469.00</td>
<td>13,092,560.00</td>
</tr>
<tr>
<td>Direct and PLUS Loan Disbursements</td>
<td>(13,120,469.00)</td>
<td>(13,092,560.00)</td>
</tr>
<tr>
<td><strong>Net cash flows provided by noncapital financing activities</strong></td>
<td><strong>19,532,166.20</strong></td>
<td><strong>20,728,383.41</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Capital and Related Financing Activities</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Building Authority</td>
<td>4,472,306.07</td>
<td>1,562,995.24</td>
</tr>
<tr>
<td>Capital Grants &amp; Contracts</td>
<td>729,544.64</td>
<td>2,736,596.60</td>
</tr>
<tr>
<td>Higher Education Facilities Fund</td>
<td>1,214,007.59</td>
<td>930,940.40</td>
</tr>
<tr>
<td>Build America Bond Subsidy</td>
<td>171,415.73</td>
<td>175,331.96</td>
</tr>
<tr>
<td>Revenue Bond Discounts/Premiums &amp; related costs</td>
<td>(54,294.18)</td>
<td>761,785.72</td>
</tr>
<tr>
<td>Proceeds from Capital Debt</td>
<td>1,444,150.00</td>
<td>7,855,007.60</td>
</tr>
<tr>
<td>Principal Paid on Capital Related Debt</td>
<td>(2,217,232.17)</td>
<td>(8,855,580.77)</td>
</tr>
<tr>
<td>Interest Paid on Capital Related Debt</td>
<td>(1,370,767.17)</td>
<td>(1,334,226.32)</td>
</tr>
<tr>
<td>Purchase of capital assets</td>
<td>(6,276,264.96)</td>
<td>(12,395,900.34)</td>
</tr>
<tr>
<td><strong>Net cash used by capital and related financing activities</strong></td>
<td><strong>(3,887,154.45)</strong></td>
<td><strong>(9,562,847.91)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income</td>
<td>$136,655.03</td>
<td>$86,565.24</td>
</tr>
<tr>
<td><strong>Net increase in cash</strong></td>
<td>6,024,513.07</td>
<td>(2,481,428.69)</td>
</tr>
</tbody>
</table>

| Cash and Cash Equivalents - Beginning of year          | $5,349,260.26   | $7,830,689.15   |
| Cash and Cash Equivalents - End of year                | $11,373,773.33  | $5,349,260.26   |

<table>
<thead>
<tr>
<th>Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Loss</td>
<td>$(13,170,062.10)</td>
<td>$(13,393,830.85)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating loss to net cash used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>$4,243,656.42</td>
<td>$4,283,556.46</td>
</tr>
<tr>
<td>Change in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td></td>
<td>94,102.10</td>
</tr>
<tr>
<td>Receivables, net</td>
<td>(73,406.73)</td>
<td>(1,363,251.40)</td>
</tr>
<tr>
<td>Inventories</td>
<td>31,355.53</td>
<td>(33,750.54)</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>452,664.93</td>
<td>71,398.55</td>
</tr>
<tr>
<td>Payables, net</td>
<td>(1,241,773.67)</td>
<td>(740,579.05)</td>
</tr>
<tr>
<td><strong>Net Cash Used by Operating Activities</strong></td>
<td><strong>(9,757,353.71)</strong></td>
<td><strong>(11,112,054.66)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Noncash Transactions</th>
<th>FY2016</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on Disposal of Capital Assets</td>
<td>$716,712.72</td>
<td>$361,228.15</td>
</tr>
<tr>
<td>Loan Cancellation Expense</td>
<td>$2,790.01</td>
<td>$14,762.44</td>
</tr>
</tbody>
</table>
# SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

## STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Collected:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenue - Contributions</td>
<td>$4,386,918</td>
<td>$5,642,403</td>
</tr>
<tr>
<td>Payments for Expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Services</td>
<td>(1,223,562)</td>
<td>(1,257,036)</td>
</tr>
<tr>
<td>Travel</td>
<td>(495,322)</td>
<td>(568,705)</td>
</tr>
<tr>
<td>Contractual</td>
<td>(189,621)</td>
<td>(759,940)</td>
</tr>
<tr>
<td>Supplies and Materials</td>
<td>(1,294,247)</td>
<td>(3,018,469)</td>
</tr>
<tr>
<td>Grants and Subsidies</td>
<td>(3,163,268)</td>
<td>(7,080,457)</td>
</tr>
<tr>
<td>Interest Paid</td>
<td>(32,643)</td>
<td>(33,252)</td>
</tr>
<tr>
<td><strong>Net Cash Flows Used in Operating Activities</strong></td>
<td>(2,011,745)</td>
<td>(2,575,456)</td>
</tr>
</tbody>
</table>

| Cash Flows from Investing Activities |            |            |
| Proceeds from Sale of Investments   | 23,291,122 | 33,094,684 |
| Purchase of Investments             | (21,282,487) | (34,213,860) |
| Repayments of Notes and Leases Receivable | 13,651 | 30,419 |
| Proceeds on Sale of Equipment       | -          | 2,500      |
| **Net Cash Flows Used in Investing Activities** | 2,022,286 | (1,086,257) |

| Cash Flows from Financing Activities |            |            |
| Contributions Restricted for Endowment Purposes | 1,333,876 | 1,757,067 |
| Payments on Notes Payable            | (14,017)   | (13,409)   |
| Increase (Decrease) in Other Liabilities | (250,865) | 59,056 |
| **Net Cash Flows Provided by Financing Activities** | 1,069,054 | 1,782,714 |

| Net Change in Cash and Cash Equivalents |            |            |
|                                         | 1,079,595  | (1,878,999) |

| Cash and Cash Equivalents -- Beginning of Year | 2,401,175 | 4,280,174 |

| Cash and Cash Equivalents -- End of Year | $3,480,770 | $2,401,175 |

<table>
<thead>
<tr>
<th>Reconciliation of Increase in Net Assets to Net Cash Used in Operating Activities</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Net Assets</td>
<td>$483,830</td>
<td>$813,334</td>
</tr>
<tr>
<td><strong>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Used in Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>107,491</td>
<td>115,773</td>
</tr>
<tr>
<td>Net Realized and Unrealized (Gain) Loss on Investments, Property, Trust and Annuity Interests</td>
<td>1,490,178</td>
<td>(1,150,396)</td>
</tr>
<tr>
<td>Contributions Restricted for Endowment Purposes</td>
<td>(1,316,867)</td>
<td>(1,338,926)</td>
</tr>
<tr>
<td>Change in Receivables and Pledges Other Than Endowments</td>
<td>(2,437,884)</td>
<td>1,052,033</td>
</tr>
<tr>
<td>Change in Payables</td>
<td>(167,374)</td>
<td>(519,280)</td>
</tr>
<tr>
<td>Change in Promise to Give to Others</td>
<td>(171,119)</td>
<td>(1,547,984)</td>
</tr>
<tr>
<td><strong>Net Cash Flows Used in Operating Activities</strong></td>
<td>(2,011,745)</td>
<td>(2,575,456)</td>
</tr>
</tbody>
</table>

### Supplemental Schedule of Non-cash Investing and Financing Activities

| Rental Real Estate Purchased with Long-Term Debt (Notes 5 and 9) | $6,803,436 | $ - |
| Construction in Progress Purchased with Accounts Payable (Notes 5 and 9) | 1,055,891 | - |
| Loss on Disposition of Rental Real Estate                        | 381,317   | - |

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. 25,
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

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, 2016, the Foundation distributed $4,211,005 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, 2016 were $690,820 with an allowance for uncollectible accounts of $263,474 and a net student receivable of $427,346. The South Dakota Bureau of Finance and Management (BFM) does not allow accounts receivable to be written off without approval from their office. BFM did not approve any write-offs for FY15 or FY16, so the allowance for student receivable was not adjusted for a write-off amount this fiscal year, causing the allowance amount to be higher than normal. Accounts receivable for Sales and Service is made up primarily of non-Federal grant and contract reimbursements, in the amount of $1,280,766, as of June 30, 2016. The remainder of this receivable consists of refundable deposits 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.

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, 2016. 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, 2016 is as follows:

<table>
<thead>
<tr>
<th>Footnote IX Capital Asset Disclosure</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$61,342.83</td>
<td>$</td>
<td>$</td>
<td>$61,342.83</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>$4,703,135.46</td>
<td>$327,466.52</td>
<td>$</td>
<td>$5,030,602.00</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$5,154,340.95</td>
<td>$3,028,784.91</td>
<td>$</td>
<td>$8,183,125.86</td>
</tr>
<tr>
<td>Buildings</td>
<td>$89,914,796.47</td>
<td>$916,956.03</td>
<td>$</td>
<td>$90,831,752.50</td>
</tr>
<tr>
<td>Equipment &amp; other property</td>
<td>$37,409,173.28</td>
<td>$1,758,470.16</td>
<td>(3,370,315.76)</td>
<td>$35,797,327.68</td>
</tr>
<tr>
<td>Library materials</td>
<td>$1,697,560.48</td>
<td>$5,524.19</td>
<td>$428,496.26</td>
<td>$2,131,580.93</td>
</tr>
<tr>
<td>Total</td>
<td>$138,940,349.49</td>
<td>$6,037,201.81</td>
<td>(2,941,819.50)</td>
<td>$142,035,731.80</td>
</tr>
</tbody>
</table>

Less accumulated depreciation:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Improvements</td>
<td>$2,104,332.47</td>
<td>$184,363.07</td>
<td>$</td>
<td>$2,288,695.54</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$3,146,778.85</td>
<td>$223,494.99</td>
<td>$</td>
<td>$3,370,273.84</td>
</tr>
<tr>
<td>Buildings</td>
<td>$26,141,531.27</td>
<td>$1,852,798.56</td>
<td>$</td>
<td>$27,994,329.83</td>
</tr>
<tr>
<td>Equipment &amp; other property</td>
<td>$28,786,822.61</td>
<td>$1,963,885.94</td>
<td>(2,649,297.04)</td>
<td>$28,101,411.51</td>
</tr>
<tr>
<td>Library materials</td>
<td>$1,618,144.38</td>
<td>$19,115.86</td>
<td>$428,496.26</td>
<td>$2,065,756.50</td>
</tr>
<tr>
<td>Total</td>
<td>$61,797,609.58</td>
<td>$4,243,658.42</td>
<td>(2,220,800.78)</td>
<td>$63,820,467.22</td>
</tr>
</tbody>
</table>

Capital Assets, net: $77,142,739.91 $1,793,543.39 (721,018.72) $78,215,264.58

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.
I. Intangible Assets:

During fiscal year 2016, the SDSM&T Geology and Geological Engineering department received donations of software from Schlumberger Oil and Gas, valued at $172 million, and Baker Hughes Incorporated, valued at $1.8 million. Because of the specialized nature of the software, the inability to determine service capacity and the lack of available market information, a fair market value for the licenses placed in operation could not be reasonably estimated. The donation is recorded in the SDSM&T Foundation financial statements under In-Kind Contributions and is not part of the SDSM&T financial statements.

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, 2016 were $1,638,851.

IV. STATE APPROPRIATIONS

The General fund appropriation amount on the financials is reflective of the amount spent during the fiscal year. FY16 budget carried over and spent in FY17 will be reflected in the FY17 appropriation. At the end of FY16, $70,243 was unspent and carried over into FY17. The State General Fund appropriation for FY16 was $16,708,175, which includes $142,353 carried over from FY15. SDSM&T reverted unspent funds, in the amount of $223,880, back to the General fund, required because of cuts in utility funding and a decrease in health insurance.

V. TUITION & STUDENT FEES

SDSM&T deposits all tuition and system fee revenue into the Board of Regents System Tuition and Fee fund. SDSM&T collected and remitted $14,709,433 of tuition and system fees to the Board of Regents system fund for fiscal year 2016. Of that amount, $2,503,718 was transferred to the Higher Education Facilities Fund (HEFF). The Board of Regents returned to the University $10,014,872 for operating, $1,835,290 for HEFF maintenance and repair projects, and $2,190,842 for salary competitiveness. The HEFF revenue reported on these statements reflects only the amount of HEFF revenues spent in FY16.

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

<table>
<thead>
<tr>
<th>Revenue Bonds, Payable</th>
<th>Balance 7/1/2015</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance 6/30/2016</th>
<th>Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2008B</td>
<td>$3,165,000.00</td>
<td>$0.00</td>
<td>($185,000.00)</td>
<td>$3,000,000.00</td>
<td>$195,000.00</td>
</tr>
<tr>
<td>Series 2009</td>
<td>$9,030,000.00</td>
<td>$0.00</td>
<td>($340,000.00)</td>
<td>$8,690,000.00</td>
<td>$345,000.00</td>
</tr>
<tr>
<td>Series 2014A</td>
<td>$6,665,000.00</td>
<td>$0.00</td>
<td>($160,000.00)</td>
<td>$6,505,000.00</td>
<td>$165,000.00</td>
</tr>
<tr>
<td>Series 2014B</td>
<td>$6,115,000.00</td>
<td>$0.00</td>
<td>($225,000.00)</td>
<td>$5,890,000.00</td>
<td>$235,000.00</td>
</tr>
<tr>
<td>Lease Obligations</td>
<td>$2,056,635.21</td>
<td>$1,444,150.00</td>
<td>($1,307,232.17)</td>
<td>$2,193,553.04</td>
<td>$706,649.86</td>
</tr>
<tr>
<td>Total Long-Term Debt</td>
<td>$27,051,635.21</td>
<td>$1,444,150.00</td>
<td>($2,217,232.17)</td>
<td>$26,278,553.04</td>
<td>$1,848,649.86</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>$3,463,628.82</td>
<td>$1,230,626.84</td>
<td>($1,171,258.03)</td>
<td>$3,522,997.43</td>
<td>$1,071,138.68</td>
</tr>
<tr>
<td>Federal Portion of Loan Programs</td>
<td>$1,511,583.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$1,511,583.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Long-Term Debt &amp; Obligations</td>
<td>$32,026,846.83</td>
<td>$2,674,776.84</td>
<td>($3,386,490.20)</td>
<td>$31,313,133.47</td>
<td>$2,719,788.54</td>
</tr>
</tbody>
</table>

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 FY16 is $3,349,162.
Revenue bond payables, as of June 30, 2016, 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 2009**
Surbeck Center Remodel and Remodel of Palmerton & Connolly Halls  
Date of Issuance: May 28, 2009  
Bond Proceeds: $10,140,000  
Variable Interest rate: 2.15%-6.25%  
Term: 25 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

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

<table>
<thead>
<tr>
<th></th>
<th>Total Bonds Payable</th>
<th>Short Term Portion</th>
<th>Long Term Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds Payable</td>
<td>$24,085,000</td>
<td>$940,000</td>
<td>$23,145,000</td>
</tr>
<tr>
<td>Premium</td>
<td>$1,034,023</td>
<td>$58,920</td>
<td>$975,103</td>
</tr>
<tr>
<td>Original Issue Discount</td>
<td>($18,553)</td>
<td>($1,031)</td>
<td>($17,522)</td>
</tr>
<tr>
<td>Per Statement of Net Position</td>
<td>$25,100,471</td>
<td>$997,869</td>
<td>$24,102,582</td>
</tr>
</tbody>
</table>

**Long-Term Leases, Payable** includes the lease of the President’s house, owned by the Foundation, in the amount of $384,174 and leases for tablet computers purchased for our students, in the amount of $1,809,379. SDSM&T entered into one new lease agreement, in FY16, for tablet computers, payable over 4 years, in the amount of $1,444,150.

The annual requirements to amortize all long-term leases outstanding, as of June 30, 2016, are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2017</td>
<td>$708,648.86</td>
<td>$108,865.66</td>
<td>$817,515.52</td>
</tr>
<tr>
<td>FY2018</td>
<td>$747,776.43</td>
<td>$69,757.09</td>
<td>$817,535.52</td>
</tr>
<tr>
<td>FY2019</td>
<td>$737,124.75</td>
<td>$19,095.07</td>
<td>$756,219.82</td>
</tr>
<tr>
<td>FY2020</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>FY2021-25</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>
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, 2016 pay rate.

Obligations also exist for lease payments to the SD Building Authority (SDBA) for renovation and building projects funded through proceeds of bonds 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 leases for copiers, student housing, and buildings and land used for educational, research, and administrative purposes. During FY16, SDSM&T entered renewed leases for copiers, office, lab and instructional space. The lease of two buildings, for student housing, accounts for $10 million of the outstanding balance, at year end. Lease payments are reported as operating expense. A summary of changes in operating leases follows:

<table>
<thead>
<tr>
<th></th>
<th>7/1/2015</th>
<th>Additions</th>
<th>Reductions</th>
<th>6/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>$12,029,334</td>
<td>$329,490</td>
<td>$(1,665,593)</td>
<td>$10,693,230</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>For Year Ended June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$1,462,993.86</td>
</tr>
<tr>
<td>2018</td>
<td>$1,358,089.28</td>
</tr>
<tr>
<td>2019</td>
<td>$1,344,147.32</td>
</tr>
<tr>
<td>2020</td>
<td>$1,280,000.00</td>
</tr>
<tr>
<td>2021</td>
<td>$1,280,000.00</td>
</tr>
<tr>
<td>Thereafter</td>
<td>$3,968,000.00</td>
</tr>
</tbody>
</table>
## X. FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION

<table>
<thead>
<tr>
<th></th>
<th>Personal Services</th>
<th>Travel</th>
<th>Contractual Services</th>
<th>Supplies &amp; Materials</th>
<th>Grants &amp; Subsidies</th>
<th>Other Expense</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$18,764,811</td>
<td>$408,834</td>
<td>$464,039</td>
<td>$662,241</td>
<td>$0</td>
<td>$24</td>
<td>$1,019,930</td>
<td>$21,319,878</td>
</tr>
<tr>
<td>Research</td>
<td>$6,851,446</td>
<td>$388,010</td>
<td>$911,363</td>
<td>$786,407</td>
<td>$1,906,679</td>
<td>$20</td>
<td>$1,635,242</td>
<td>$12,479,187</td>
</tr>
<tr>
<td>Public Service</td>
<td>$570,002</td>
<td>$8,273</td>
<td>$0</td>
<td>$51,632</td>
<td>$0</td>
<td>$23,234</td>
<td>$853,141</td>
<td></td>
</tr>
<tr>
<td>Academic Support</td>
<td>$2,791,481</td>
<td>$34,494</td>
<td>$708,049</td>
<td>$1,710,884</td>
<td>$2</td>
<td></td>
<td>$168,706</td>
<td>$5,413,617</td>
</tr>
<tr>
<td>Student Services</td>
<td>$3,541,197</td>
<td>$595,536</td>
<td>$548,978</td>
<td>$553,872</td>
<td>$121</td>
<td></td>
<td>$408,642</td>
<td>$5,646,346</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>$3,577,734</td>
<td>$60,042</td>
<td>$751,967</td>
<td>$201,624</td>
<td>$0</td>
<td>$96,966</td>
<td>$92,535</td>
<td>$4,782,658</td>
</tr>
<tr>
<td>O&amp;M of Plant</td>
<td>$1,972,482</td>
<td>$29,500</td>
<td>$1,694,043</td>
<td>$587,098</td>
<td>$552,083</td>
<td></td>
<td>$4,835,206</td>
<td></td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$1,732,341</td>
<td>$20,535</td>
<td></td>
<td>$1,752,877</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>$1,318,942</td>
<td>$14,605</td>
<td>$4,845,559</td>
<td>$1,559,131</td>
<td>$0</td>
<td>$35</td>
<td>$343,287</td>
<td>$8,081,558</td>
</tr>
<tr>
<td>Total</td>
<td>$39,388,095</td>
<td>$1,539,294</td>
<td>$9,921,998</td>
<td>$6,112,888</td>
<td>$3,639,021</td>
<td>$119,893</td>
<td>$4,243,658</td>
<td>$64,964,649</td>
</tr>
</tbody>
</table>
(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 Foundation reports all contributions received, including unconditional promises to give, as revenue in the period received at their fair values. Contributions received are distinguished between those that increase permanently restricted, temporarily restricted, and unrestricted net assets. 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 three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) are displayed in the Statements of Financial Position and the amounts of change in each of the three classes of net assets are displayed in 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. 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 securities at the end of each accounting period. Investment expense of $145,147 and $192,504 is netted against the investment income for the years ended June 30, 2016 and 2015, respectively.

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

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

Contributions and Promises to Give

The Foundation records its contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
(1) Summary of Significant Accounting Policies (Continued)

Contributions and Promises to Give (Continued)

Unconditional promises to give are recognized as temporarily restricted net assets and 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.

Beneficial interests in trust gifts and charitable gift annuities are recorded as contributions (whether the Foundation acts as trustee or not) in the temporarily and permanently restricted net assets at the fair market value of the trust's assets. Assets held for charitable remainder trusts and charitable gift annuities are recorded at fair market value in the Foundation's Statements of Financial Position.

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 investment income, 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, 2016 and 2015. 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." Income received from the trusts or annuities during the year is recorded as temporarily restricted investment income in the Statement of Activities and Changes in Net Assets as required by the donors.

Notes Receivable Realization

Notes receivable will be charged off as uncollectible when management feels they have exhausted all collection efforts. Notes receivable are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual notes is recognized only to the extent cash payments are received. Payments not received in accordance with the terms of the individual note agreements are considered past due.

Management has elected not to record an allowance against notes receivable, as they have no collection concerns on the remaining note receivable balances.

A note is considered impaired when, based on current information and events, it is probable the Foundation will be unable to collect the contractual interest and principal due in accordance with the terms of the note agreement. Notes that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all the circumstances surrounding the note and the borrower, including the length of the delay, the reasons for the delay, the borrower's payment record, and the amount of the shortfall in relation to the principal and interest owed. None are impaired at June 30, 2016 or 2015.

Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal balances outstanding.
(1) Summary of Significant Accounting Policies (Continued)

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 these 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 $173,841,227 and $694,628 for the years ended June 30, 2016 and 2015, 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:

<table>
<thead>
<tr>
<th></th>
<th>YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>5-7</td>
</tr>
<tr>
<td>Purchased Software</td>
<td>5</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>15</td>
</tr>
<tr>
<td>Rental Buildings</td>
<td>40</td>
</tr>
</tbody>
</table>

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).

At June 30, 2016, the Foundation believes no significant uncertain tax positions or liabilities exist.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets based on the purpose achieved by each expenditure. Certain support expenses have been allocated for presentation purposes as either Fundraising or Administrative based on payroll expenses of employees whose time may benefit more than one activity.

Statement 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.
(1) Summary of Significant Accounting Policies (Continued)

Impairment – Rental Real Estate

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, 2016, based on anticipated proceeds. Management anticipates no impairment losses.

Memorandum Only Totals

The June 30, 2015 Statement of Activities and Changes in Net Assets is captioned “Memorandum Only.” Such information is presented only to facilitate financial analysis. This data does not present the financial statements in the amount of detail that accounting principles generally accepted in the United States of America require. The complete June 30, 2015 financial statements were included with the prior year report, but they are not presented here because of space limitations and to avoid cumbersome and confusing formats.

Subsequent Events

We have assessed the Foundation for significant subsequent events through October 4, 2016, the date which the financial statements were available to be issued.

Emerging Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.
(I) Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Standards (Continued)

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to provide more useful information to financial statement users. Changes include: 1) presenting only two classes of net assets (with and without donor restrictions), 2) no longer requiring a reconciliation with the indirect method when choosing to utilize the direct method of cash flows, 3) reporting investment return net of expenses with no additional disclosure of expense amounts, and 4) eliminating the option to release donor-imposed restrictions of long-lived assets over the estimate useful life of the asset acquired. In addition, enhanced disclosures are required for board designated and donor restricted net assets, the entity’s liquidity and how that liquidity is managed, expenses by both natural and functional classification, the allocation methods among program and support functions, and underwater endowment funds (which will now be classified as net assets with donor restrictions). The standard is effective for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the impact this standard will have on the financial statements.

(2) Investments

Investments consist of the following investment types at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Market</td>
<td>Cost</td>
</tr>
<tr>
<td>Money Market Funds included in Cash and Cash Equivalents</td>
<td>$ 2,934,775</td>
<td>$ 2,934,775</td>
</tr>
<tr>
<td>Government Securities/Corporate Bonds/CDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond Funds</td>
<td>2,212,096</td>
<td>2,138,119</td>
</tr>
<tr>
<td>Stocks</td>
<td>11,509,008</td>
<td>11,532,728</td>
</tr>
<tr>
<td>Stock Funds</td>
<td>8,136,387</td>
<td>7,690,273</td>
</tr>
<tr>
<td>Alternatives</td>
<td>24,504,770</td>
<td>24,041,493</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>8,379,621</td>
<td>6,795,643</td>
</tr>
<tr>
<td>Total Investments</td>
<td>58,796,762</td>
<td>54,396,934</td>
</tr>
</tbody>
</table>

$ 61,731,537  $ 57,331,709   $ 64,459,654  $ 58,307,698

The fair values of debt securities and certificates of deposit at June 30, 2016 and 2015, by contractual maturity, are shown below:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$ 1,500,000</td>
<td>$ 1,000,000</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>$ 708,856</td>
<td>$ 52,000</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>-</td>
<td>$ 679,536</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>$ 3,240</td>
<td>$ 4,939</td>
</tr>
</tbody>
</table>

$ 2,212,096  $ 1,736,475
(2) Investments (Continued)

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.

The following tables present the assets carried at fair value as of June 30, 2016 and 2015, 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, 2016

<table>
<thead>
<tr>
<th>Money Market Funds included in</th>
<th>Level One</th>
<th>Level Two</th>
<th>Level Three</th>
<th>NAV per Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$ 2,934,775</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 2,934,775</td>
</tr>
<tr>
<td>Gov Sec/Corp Bonds/CDs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,212,096</td>
<td>2,212,096</td>
</tr>
<tr>
<td>Bond Funds</td>
<td>11,509,008</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,509,008</td>
</tr>
<tr>
<td>Low-Correlated Hedge Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,118,508</td>
<td>5,118,508</td>
</tr>
<tr>
<td>Illiquid Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,279,651</td>
<td>1,279,651</td>
</tr>
<tr>
<td>Private Equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,981,462</td>
<td>1,981,462</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>208,676</td>
<td>-</td>
<td>-</td>
<td>3,846,204</td>
<td>4,054,880</td>
</tr>
<tr>
<td>Large-Cap Equity Funds</td>
<td>10,565,625</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,565,625</td>
</tr>
<tr>
<td>Small/Mid-Cap Equity Funds</td>
<td>4,341,430</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,341,430</td>
</tr>
<tr>
<td>International Equity Funds</td>
<td>8,359,816</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,359,816</td>
</tr>
<tr>
<td>Balanced Mutual Funds</td>
<td>1,237,899</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,237,899</td>
</tr>
<tr>
<td>Large-Cap Stock</td>
<td>4,091,014</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,091,014</td>
</tr>
<tr>
<td>Mid/Small-Cap Stock</td>
<td>1,218,819</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,218,819</td>
</tr>
<tr>
<td>International Stock</td>
<td>2,826,554</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,826,554</td>
</tr>
</tbody>
</table>

| $ 47,393,616 | $ - | $ - | $ 14,437,921 | $ 61,731,537 |
SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016 AND 2015

(2) Investments (Continued)

<table>
<thead>
<tr>
<th>June 30, 2015</th>
<th>Level One</th>
<th>Level Two</th>
<th>Level Three</th>
<th>NAV per Share</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds included in Cash and Cash Equivalents          $ 2,063,682</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 2,063,682</td>
<td></td>
</tr>
<tr>
<td>Gov Sec/Corp Bonds/CDs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,736,475</td>
<td>1,736,475</td>
</tr>
<tr>
<td>Bond Funds</td>
<td>8,809,879</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,809,879</td>
</tr>
<tr>
<td>Low-Correlated Hedge Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,088,071</td>
<td>10,088,071</td>
</tr>
<tr>
<td>Illiquid Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,207,795</td>
<td>1,207,795</td>
</tr>
<tr>
<td>Private Equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,858,917</td>
<td>1,858,917</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>192,700</td>
<td>-</td>
<td>-</td>
<td>3,483,121</td>
<td>3,675,821</td>
</tr>
<tr>
<td>Large-Cap Equity Funds</td>
<td>11,328,931</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,328,931</td>
</tr>
<tr>
<td>Small/Mid-Cap Equity Funds</td>
<td>4,512,700</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,512,700</td>
</tr>
<tr>
<td>International Equity Funds</td>
<td>8,314,477</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,314,477</td>
</tr>
<tr>
<td>Balanced Mutual Funds</td>
<td>1,222,158</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,222,158</td>
</tr>
<tr>
<td>Large-Cap Stock</td>
<td>5,220,118</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,220,118</td>
</tr>
<tr>
<td>Mid/Small-Cap Stock</td>
<td>1,420,550</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,420,550</td>
</tr>
<tr>
<td>International Stock</td>
<td>3,000,080</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,000,080</td>
</tr>
<tr>
<td>$ 46,085,275</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 18,374,379</td>
<td>$ 64,459,654</td>
</tr>
</tbody>
</table>

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. Investments valued at net asset value per share include bonds that are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks. Additionally, there are investments based on the Company’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 fair market value and the related unrealized gains and losses on investments vary from time to time based on many factors, including the national economy.

The following table lists investments by major category:

<table>
<thead>
<tr>
<th>June 30, 2016</th>
<th>Fair Value</th>
<th>Unfunded Commitments</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gov Sec/Corp Bonds/CDs</td>
<td>$ 2,212,096</td>
<td>$ -</td>
<td>Daily</td>
<td>3 Days</td>
</tr>
<tr>
<td>Low-Correlated Hedge Funds</td>
<td>5,118,508</td>
<td>-</td>
<td>Annually</td>
<td>61 to 100 Days</td>
</tr>
<tr>
<td>Illiquid Credit</td>
<td>1,279,651</td>
<td>887,372</td>
<td>**</td>
<td>N/A</td>
</tr>
<tr>
<td>Private Equity</td>
<td>1,981,462</td>
<td>1,141,019</td>
<td>*</td>
<td>N/A</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>3,846,204</td>
<td>-</td>
<td>Quarterly</td>
<td>60 Days</td>
</tr>
<tr>
<td>**Total</td>
<td>$ 14,437,921</td>
<td>$ 2,028,391</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(2) Investments (Concluded)

<table>
<thead>
<tr>
<th>June 30, 2015</th>
<th>Fair Value</th>
<th>Unfunded Commitments</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gov Sec/Corp Bonds/CDs</td>
<td>$1,736,475</td>
<td>$ -</td>
<td>Daily</td>
<td>3 Days</td>
</tr>
<tr>
<td>Low-Correlated Hedge Funds</td>
<td>1,069,747</td>
<td>-</td>
<td>Daily</td>
<td>3 Days</td>
</tr>
<tr>
<td>Low-Correlated Hedge Funds</td>
<td>9,018,324</td>
<td>-</td>
<td>Annually</td>
<td>61 to 100 Days</td>
</tr>
<tr>
<td>Illiquid Credit</td>
<td>1,207,795</td>
<td>962,842</td>
<td>**</td>
<td>N/A</td>
</tr>
<tr>
<td>Private Equity</td>
<td>1,858,917</td>
<td>1,322,546</td>
<td>*</td>
<td>N/A</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>3,483,121</td>
<td>-</td>
<td>Quarterly</td>
<td>60 Days</td>
</tr>
<tr>
<td>** Total</td>
<td>$18,374,379</td>
<td>$2,285,388</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Private Equity Funds can be redeemed between years ending December 31, 2018 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:

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable in less than one year</td>
<td>$1,954,796</td>
</tr>
<tr>
<td>Receivable in one to five years</td>
<td>4,285,202</td>
</tr>
<tr>
<td>Receivable in six years</td>
<td>-</td>
</tr>
<tr>
<td>Less discounts to net present value</td>
<td>6,239,998</td>
</tr>
<tr>
<td>Less allowance for uncollectible promises</td>
<td>509,149</td>
</tr>
<tr>
<td>Net Promises to Give</td>
<td>311,999</td>
</tr>
<tr>
<td>** Total</td>
<td>$5,418,850</td>
</tr>
</tbody>
</table>

(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, 2016 and 2015, is $359,695 and $373,225, respectively. Income recognized on the lease was $18,923 and $19,532 during the years ended June 30, 2016 and 2015, respectively.

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

<table>
<thead>
<tr>
<th>2017</th>
<th>12,016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>12,745</td>
</tr>
<tr>
<td>2019</td>
<td>334,934</td>
</tr>
<tr>
<td>** Total</td>
<td>$359,695</td>
</tr>
</tbody>
</table>
(5) Rental Real Estate

Rental real estate consists of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land, at cost</td>
<td>$1,857,189</td>
<td>$1,857,189</td>
</tr>
<tr>
<td>Building, at cost</td>
<td>3,112,513</td>
<td>3,554,293</td>
</tr>
<tr>
<td>Real estate partnership interest, at cost</td>
<td>469,766</td>
<td>469,766</td>
</tr>
<tr>
<td>Construction in Progress (Note 9)</td>
<td>7,859,327</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(804,369)</td>
<td>(782,795)</td>
</tr>
<tr>
<td>Net Book Value</td>
<td>$12,494,426</td>
<td>$5,098,453</td>
</tr>
</tbody>
</table>

The Foundation leases these properties primarily to SDSM&T and its students under monthly short-term operating leases.

Included in construction in progress at June 30, 2016 is approximately $47,000 of interest that has been capitalized as part of construction.

(6) Charitable Remainder Trusts

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Value</td>
<td>Recorded Net Asset Value</td>
</tr>
<tr>
<td>Charitable Unitrusts</td>
<td>$6,020,037</td>
<td>$3,302,839</td>
</tr>
<tr>
<td>Charitable Annuity Trusts</td>
<td>1,074,553</td>
<td>404,990</td>
</tr>
<tr>
<td></td>
<td>$7,094,590</td>
<td>$3,707,829</td>
</tr>
</tbody>
</table>

During the year ended June 30, 2016, there were no new contributions or terminations. The Foundation is the remainderman for 95 percent of the market value listed above for each of the years ended June 30, 2016 and 2015.

Trust assets held by the Foundation are included in the following areas of the Statements of Financial Position at June 33:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>$6,865,885</td>
<td>$7,249,893</td>
</tr>
<tr>
<td>Rental Real Estate</td>
<td>210,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Other Assets</td>
<td>18,705</td>
<td>18,743</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>-</td>
<td>(4,719)</td>
</tr>
<tr>
<td></td>
<td>$7,094,590</td>
<td>$7,473,827</td>
</tr>
</tbody>
</table>

During the year ended June 30, 2016, there was one gift to a new charitable lead trust. The Foundation will receive $500,000 over the 20 year life of the trust. This gift had a present value of $282,150. The Foundation is not the trustee. Market value equals the remaining payments due over the life of the trust.
SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016 AND 2015

(7) Liability under Charitable Gift Annuities

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value</td>
<td>$1,468,270</td>
<td>$1,638,732</td>
</tr>
<tr>
<td>Recorded at Present Value</td>
<td>730,155</td>
<td>871,250</td>
</tr>
<tr>
<td>Liability Under Charitable Gift Annuities</td>
<td>$738,115</td>
<td>$767,482</td>
</tr>
</tbody>
</table>

During the year ended June 30, 2016, there were no additional or terminated annuities. The Foundation is the remainderman for 100 percent of the market value listed above for each of the years ended June 30, 2016 and 2015.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>$1,468,381</td>
<td>$1,637,015</td>
</tr>
<tr>
<td>Other Assets</td>
<td>991</td>
<td>1,717</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(1,102)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$1,468,270</td>
<td>$1,638,732</td>
</tr>
</tbody>
</table>

(8) Notes Payable

Notes payable consists of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage note payable to a bank, due in monthly payments of $2,745, including interest at 4.75 percent through August 15, 2018, when the remaining balance of approximately $354,000 is due; secured by the home of the President of SDSM&amp;T (see Note 4).</td>
<td>$384,184</td>
<td>$398,201</td>
</tr>
<tr>
<td>Mortgage note payable to Rapid City Economic Development Foundation, due in one balloon payment, including interest at 2.00 percent through December 30, 2016; secured by the rental property.</td>
<td>686,000</td>
<td>686,000</td>
</tr>
<tr>
<td>Note Payable to a bank, entire balance is due in one balloon payment including interest at 2.75 percent plus one-month LIBOR (.47 at June 30, 2016) on October 1, 2017; secured by the constructed real estate and land purchased and fixtures purchased.</td>
<td>6,803,436</td>
<td>-</td>
</tr>
<tr>
<td>Current Maturities of Notes Payable</td>
<td>$7,873,620</td>
<td>$1,084,201</td>
</tr>
<tr>
<td></td>
<td>$701,016</td>
<td>$700,335</td>
</tr>
<tr>
<td></td>
<td>$7,172,604</td>
<td>$383,866</td>
</tr>
</tbody>
</table>
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016 AND 2015

(8) Notes Payable (Continued)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$701,016</td>
</tr>
<tr>
<td>2018</td>
<td>$6,819,180</td>
</tr>
<tr>
<td>2019</td>
<td>$355,424</td>
</tr>
<tr>
<td></td>
<td>$7,873,620</td>
</tr>
</tbody>
</table>

The Foundation expects to refinance the $6,803,436 note payable in the ordinary course of business during the next fiscal year.

(9) Commitment

During the year ended June 30, 2016, the Foundation entered into a development agreement for the construction of a six-story building that will serve as student housing. The Foundation has entered into a 30-year lease with the South Dakota Board of Regents for this residence hall beginning August 1, 2016. The project is being financed by US Bank. As of June 30, 2016, the property and related note payable and accounts payable are included in the accompanying Statement of Financial Position in the amount of $7,859,327, $6,803,436 and $1,055,891, respectively. After year end, the $1,055,591 included in accounts payable was financed through the note payable with US Bank. The construction contract totaled $7,833,921 and the remaining costs of construction are estimated to be approximately $1,226,000 at June 30, 2016, which will also be financed by US Bank. Maximum potential borrowings on the note payable are $9,000,000.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships and Fellowships</td>
<td>$4,334,948</td>
<td>$3,623,531</td>
</tr>
<tr>
<td>General Student Assistance</td>
<td>$969,143</td>
<td>$947,594</td>
</tr>
<tr>
<td>General Support to SDSM&amp;T</td>
<td>$10,206,536</td>
<td>$8,058,314</td>
</tr>
<tr>
<td>Pledge Donations - Timing Restriction - Determined by Donor at Later Date</td>
<td>$3,226,201</td>
<td>$2,907,463</td>
</tr>
<tr>
<td></td>
<td>$18,736,822</td>
<td>$15,536,902</td>
</tr>
</tbody>
</table>

Substantially all investment income earned on temporarily restricted investments is recorded in temporarily restricted net assets. In addition, investment income from permanently restricted funds, which is available for expenditure to program support of SDSM&T, is reported in these funds.

During the years ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

<table>
<thead>
<tr>
<th>Purpose of Restriction Accomplished</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships and Fellowships</td>
<td>$2,423,107</td>
<td>$2,243,379</td>
</tr>
<tr>
<td>General Student Assistance</td>
<td>$335,047</td>
<td>$275,659</td>
</tr>
<tr>
<td>General Support to SDSM&amp;T</td>
<td>$1,451,776</td>
<td>$2,071,523</td>
</tr>
<tr>
<td>In-Kind Contributions (Note 1)</td>
<td>$173,841,227</td>
<td>$694,628</td>
</tr>
<tr>
<td></td>
<td>$178,051,157</td>
<td>$5,285,389</td>
</tr>
</tbody>
</table>
SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016 AND 2015

(11) Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships and Fellowships</td>
<td>$29,944,155</td>
<td>$31,058,985</td>
</tr>
<tr>
<td>General Student Assistance</td>
<td>1,587,750</td>
<td>1,591,869</td>
</tr>
<tr>
<td>General Support to SDSM&amp;T</td>
<td>15,330,510</td>
<td>16,137,044</td>
</tr>
<tr>
<td>Pledge Donations</td>
<td>2,192,649</td>
<td>2,209,658</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$49,055,064</strong></td>
<td><strong>$50,997,556</strong></td>
</tr>
</tbody>
</table>

In accordance with agreements with donors, investment income, including realized and unrealized gains, is allocated in part to the permanently 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.

(12) 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 permanently restricted funds (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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation’s permanently restricted net assets 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.
(12) Endowed Net Assets (Continued)

The following represents endowment net asset composition by type of fund as of June 30, 2016 and 2015:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor Restricted Endowment Funds</td>
<td>$</td>
<td>$3,520,548</td>
<td>$50,997,556</td>
<td>$54,518,104</td>
</tr>
<tr>
<td>Board-Designated Endowment Funds</td>
<td>$</td>
<td>$773,642</td>
<td></td>
<td>$773,642</td>
</tr>
<tr>
<td><strong>Endowment Assets - June 30, 2015</strong></td>
<td></td>
<td>$4,294,190</td>
<td>$50,997,556</td>
<td>$55,291,746</td>
</tr>
<tr>
<td>Donor Restricted Endowment Funds</td>
<td>$</td>
<td>$3,896,966</td>
<td>$49,055,064</td>
<td>$52,952,030</td>
</tr>
<tr>
<td>Board-Designated Endowment Funds</td>
<td>$</td>
<td>$733,114</td>
<td></td>
<td>$733,114</td>
</tr>
<tr>
<td><strong>Endowment Assets - June 30, 2016</strong></td>
<td></td>
<td>$4,630,080</td>
<td>$49,055,064</td>
<td>$53,685,144</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endowment Assets - June 30, 2014</strong></td>
<td></td>
<td>$4,103,110</td>
<td>$50,788,965</td>
<td>$54,892,075</td>
</tr>
<tr>
<td>Investment Income (Loss), Net of Fees</td>
<td>$</td>
<td>$1,551,522</td>
<td>$1,088,412</td>
<td>$463,110</td>
</tr>
<tr>
<td>Unrealized Loss on Trusts/Annuities</td>
<td>$</td>
<td>$250,000</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Reclassification Contributions</td>
<td>$</td>
<td>$1,088,935</td>
<td></td>
<td>$1,088,935</td>
</tr>
<tr>
<td>Appropriation for Expenditure</td>
<td>$</td>
<td>$(1,110,442)</td>
<td>$1,088,935</td>
<td>$(1,110,442)</td>
</tr>
<tr>
<td><strong>Endowment Assets - June 30, 2015</strong></td>
<td></td>
<td>$4,294,190</td>
<td>$50,997,556</td>
<td>$55,291,746</td>
</tr>
<tr>
<td>Investment Income (Loss), Net of Fees</td>
<td>$</td>
<td>$1,629,285</td>
<td>$(3,233,645)</td>
<td>$(1,604,360)</td>
</tr>
<tr>
<td>Unrealized Loss on Trusts/Annuities</td>
<td>$</td>
<td>$(25,714)</td>
<td>$25,714</td>
<td>$25,714</td>
</tr>
<tr>
<td>Contributions Appropriation for Expenditure</td>
<td>$</td>
<td>$(1,293,395)</td>
<td>$1,316,867</td>
<td>$(1,293,395)</td>
</tr>
<tr>
<td><strong>Endowment Assets - June 30, 2016</strong></td>
<td></td>
<td>$4,630,080</td>
<td>$49,055,064</td>
<td>$53,685,144</td>
</tr>
</tbody>
</table>

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 2016 and 2015 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 2016 and 2015, included in the annual allocation of earnings above are a four percent payout to fund the stated purposes of endowment which total $1,813,377 and $1,665,828 respectively.