

SOUTH DAKOTA



**SCHOOL OF MINES
& TECHNOLOGY**

2018

FINANCIAL REPORT

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FINANCIAL REPORT

For the Year Ended June 30, 2018

TABLE OF CONTENTS

INTRODUCTION

Principal Officials.....	4
Organization Chart	5

FINANCIAL STATEMENTS

Management's Discussion and Analysis.....	6
Statement of Net Position.....	13
Component Unit - Statements of Financial Position	14
Statement of Revenues, Expenses, and Changes in Net Position.....	15
Component Unit - Statement of Activities and Changes in Net Assets	16
Statement of Cash Flows	17
Component Unit - Statements of Cash Flows	18
Notes to Financial Statements	20
Component Unit - Notes to Financial Statements	28



February 4, 2019

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

Dear Dr. Beran:

I am pleased to forward the financial statements for South Dakota School of Mines and Technology for fiscal year 2018.

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

Sincerely,

James M. Rankin
President

Enclosure



OFFICE OF FINANCE AND ADMINISTRATION

January 11, 2019

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

Dear Dr. Rankin:

The annual financial report for South Dakota School of Mines and Technology for the fiscal year ended June 30, 2018 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,

Heather Forney
Interim Vice President, Finance and Administration

Enclosure

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

FINANCIAL REPORT

For the Year Ended June 30, 2018

REGENTS OF EDUCATION

Bob Sutton, President, Sioux Falls
Kevin Schieffer, Vice President, Sioux Falls
John W. Bastian, Belle Fourche
Conrad Adam, Pierre
Jim Morgan, Brookings
Pam Roberts, Pierre
Randy Schaefer, Madison
Joan Wink, Howes
Jim Thares, Aberdeen

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

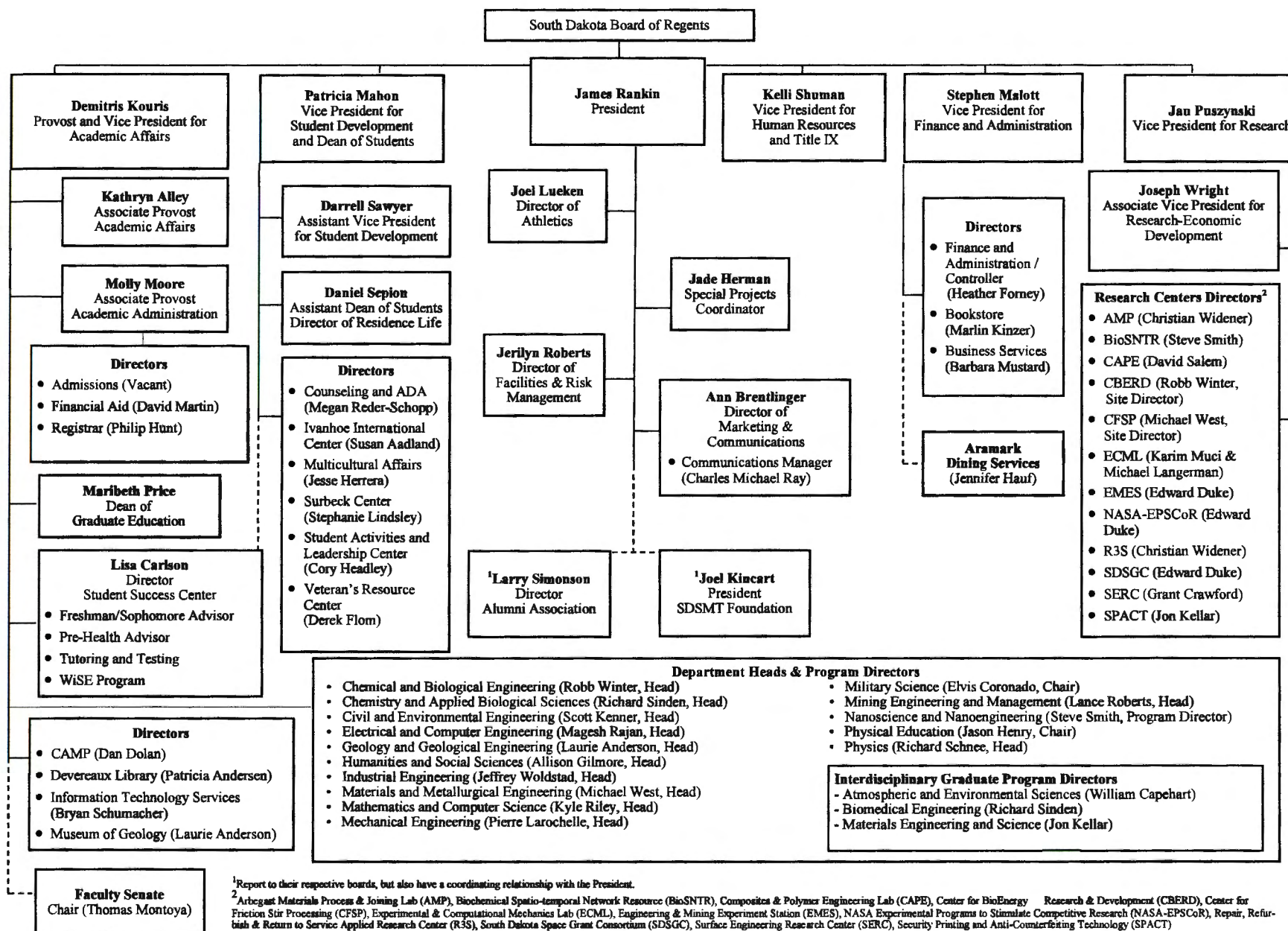
Dr. James Rankin, President
Dr. Demitris Kouris, Provost and Vice President for Academic Affairs
Frank Stephen Malott, Vice President for Finance and Administration
Dr. Jan Puszynski, Vice President for Research
Dr. Patricia Mahon, Vice President for Student Development and Dean of Students
Kelli Shuman, 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 Organizational Chart

Last updated:
05/22/2018



SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

Management's Discussion and Analysis

Reporting Entity

The South Dakota School of Mines and Technology (SD Mines) presents its financial report for the fiscal year ended June 30, 2018, along with comparative data for the fiscal year ended June 30, 2017.

SD Mines is one of six public universities under the control of the South Dakota Board of Regents, a nine-member board. Based on the provision of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, it has been determined that all six public universities are considered component units of the State of South Dakota and are reported as such in the State's comprehensive annual financial report.

The financial operations of SD Mines are audited as a part of the State of South Dakota. Therefore, an audit opinion is not issued on the individual statements of the University, but rather on the audited Comprehensive Annual Financial Report of the State of South Dakota. The following discussion and analysis provide an overview of the financial position and activities of South Dakota School of Mines and Technology (SD Mines) for the year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

The South Dakota School of Mines and Technology Foundation is a component unit of the University. As such, the financial statements of the Foundation are included in this report. Independent auditors, engaged by the Foundation's Board of Directors, audit the Foundation's financial information. The University has no control or management responsibility over the Foundation funds.

Using the Financial Statements

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

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents revenues earned and expenses incurred during the year. Revenues and expenses are considered operating and non-operating. In accordance with GASB requirements, state appropriations have been classified as non-operating revenues, resulting in the reporting of a significant net operating loss. The financial statements also reflect an allowance for depreciation expense, which is the amortization of the cost of a capital asset over its estimated useful life.

The Statement of Cash Flows presents information related to the cash inflows and outflows. Transactions are classified as operating, non-capital, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations, as they mature.

Statement of Net Position

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

Condensed Statement of Net Position

	<u>30-Jun-2018</u>	<u>30-Jun-2017</u>
ASSETS		
Current assets	\$ 21,025,109	\$ 19,094,293
Noncurrent assets	\$100,413,672	\$ 89,571,207
Deferred outflow of resources	\$ 629,275	\$ 56,919
Total assets and deferred outflows	<u>\$122,068,056</u>	<u>\$108,722,419</u>
LIABILITIES		
Current liabilities	\$ 6,698,194	\$ 6,909,335
Noncurrent liabilities	<u>\$ 38,470,068</u>	<u>\$ 29,595,459</u>
Total liabilities	<u>\$ 45,168,262</u>	<u>\$ 36,504,794</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 61,470,673	\$ 60,818,473
Restricted	\$ 3,672,994	\$ 3,138,221
Unrestricted	<u>\$ 11,756,127</u>	<u>\$ 8,260,930</u>
Total Net Position	<u>\$ 76,899,794</u>	<u>\$ 72,217,625</u>

- Total assets increased by \$13.3 million, comprised of a \$5.5 million increase in cash, a \$10.8 million increase in plant assets, offset by a \$3 million net decrease in receivables.
- SD Mines' largest asset is its investment in physical plant, representing \$96 million of noncurrent assets.
- Total liabilities increased \$8.7 million due to an increase in bonds payable of \$10.3 million, offset by decreases in leases payable of \$1.3 million and other payables of \$0.3 million.
- SD Mines' largest liability is revenue bonds payable of \$34 million.

Statement of Revenues, Expenses, and Changes in Net Position

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

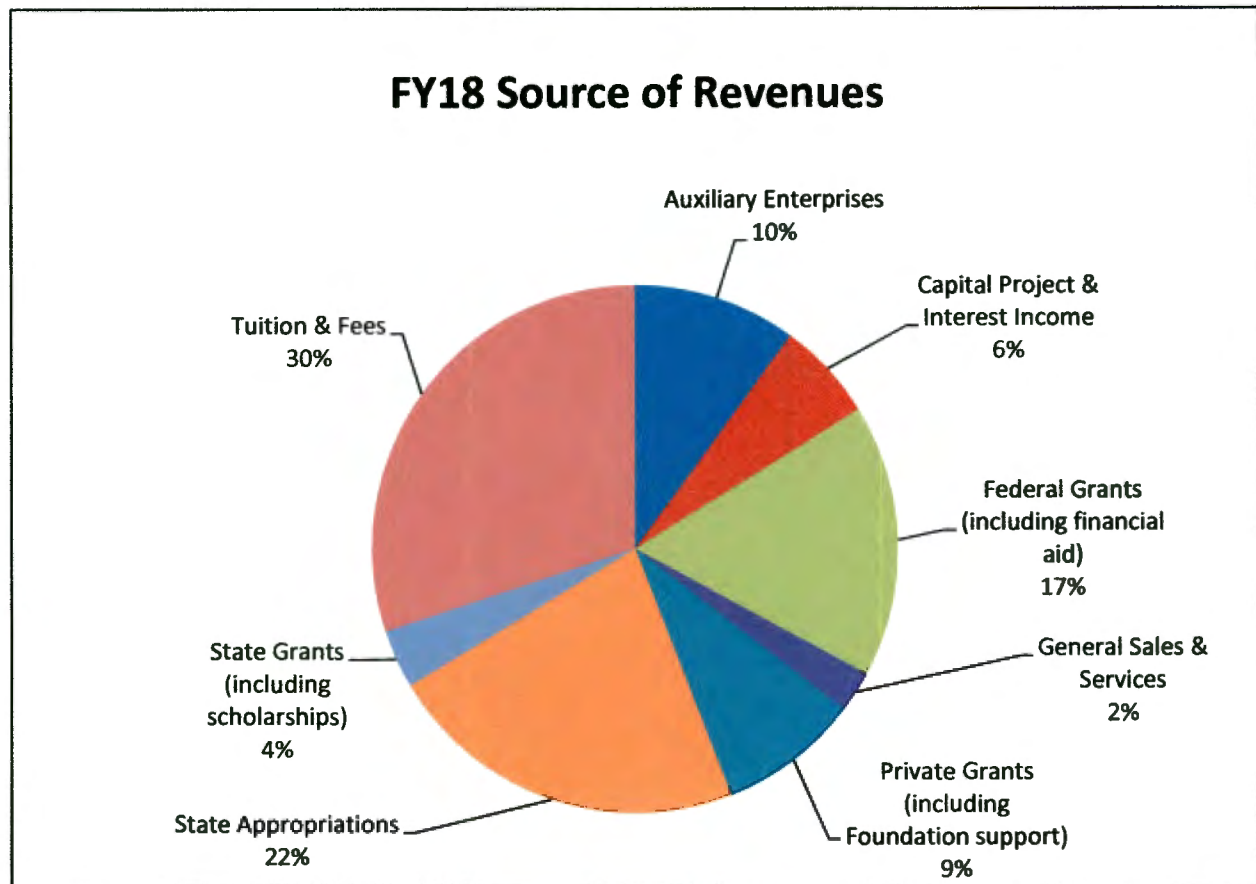
Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>30-Jun-2018</u>	<u>30-Jun-2017</u>
Operating Revenues	\$ 52,794,620	\$ 55,091,401
Operating Expenses	<u>\$ 69,755,062</u>	<u>\$ 71,010,489</u>
Operating Loss	\$ (16,960,442)	\$(15,919,088)
Non-Operating Revenues	\$ 21,598,324	\$ 19,693,655
Non-Operating Expenses	<u>\$ 2,290,894</u>	<u>\$ 1,348,688</u>
Net Gain/(Loss) before capital contributions	\$ 2,346,988	\$ 2,425,879
Capital Contributions	<u>\$ 2,335,182</u>	<u>\$ 4,239,298</u>
Increase(Decrease) in Net Position	\$ 4,682,170	\$ 6,665,177
Net Position, Beginning of Year	<u>\$ 72,217,625</u>	<u>\$ 65,552,448</u>
Net Position, End of Year	<u>\$ 76,899,795</u>	<u>\$ 72,217,625</u>

- Operating revenues decreased by \$2.3 million during the last year. Tuition and fee revenues declined \$1.1 million due to reduced enrollment, grant revenues were down \$1.8 million, offset by an increase in auxiliary and general sales revenue of \$0.6 million.
- Operating expenses decreased by \$1.3 million, mainly due to a decrease in Personal Service expenditures of \$0.6 million and a decrease in supply expenditures of \$0.7 million.
- State appropriations, totaling \$17 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 \$1.7 million from the Higher Education Facilities fund, \$567 thousand from Capital Grants, and \$87 thousand from the Build American Bond Subsidy during FY18; for projects including the renovation of the McLaury building, capital equipment, and infrastructure projects.

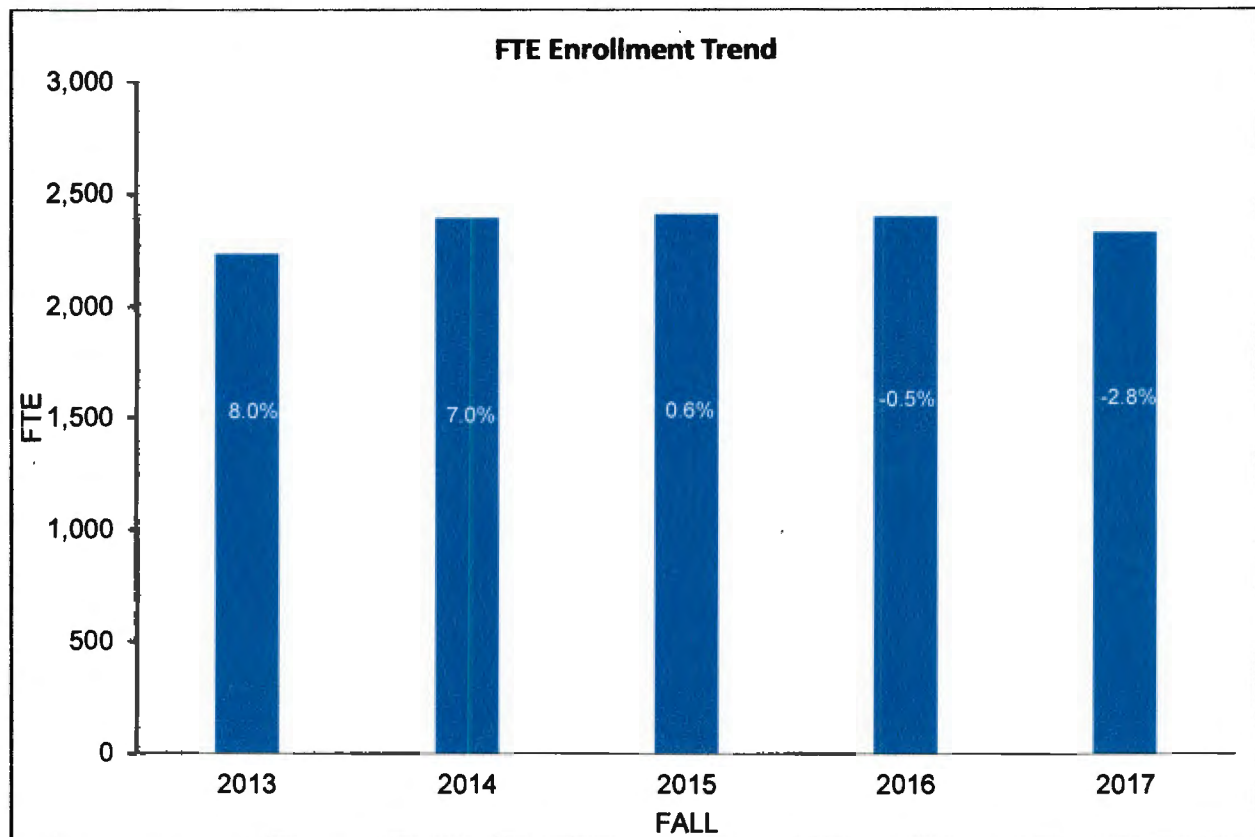
Revenues

The chart below is an illustration of SD Mines' major revenue sources, for the year ended June 30, 2018:



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

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



Operating Expenses

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

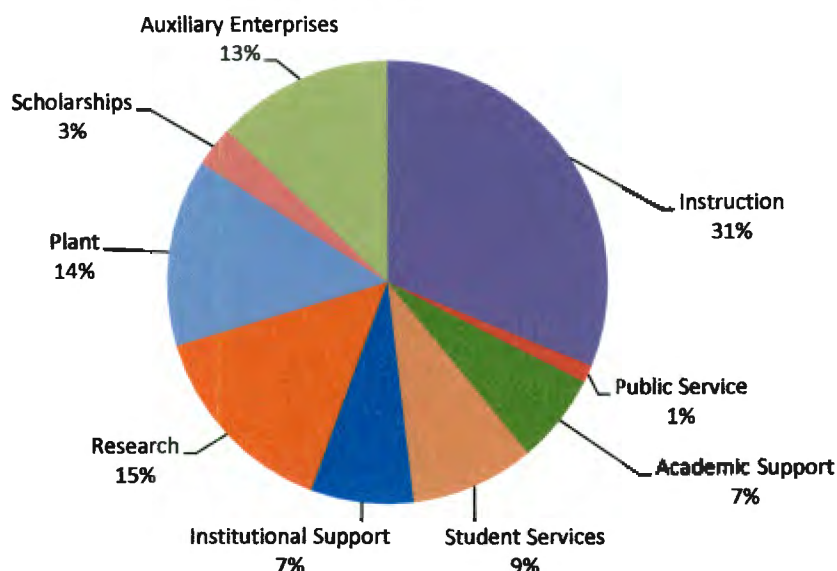
Operating Expenses Natural Classification

	<u>2018</u>	<u>2017</u>
Personal Services	\$41,025,639	\$41,638,412
Travel	\$ 1,728,366	\$ 1,582,130
Contractual Services	\$10,753,443	\$10,482,573
Supplies and Materials	\$ 7,948,581	\$ 8,700,385
Grants & Subsidies	\$ 3,971,485	\$ 4,262,677
Other	\$ 84,448	\$ 104,401
Depreciation	<u>\$ 4,243,100</u>	<u>\$ 4,239,911</u>
Total Operating Expenses	\$69,755,062	\$71,010,489

Operating expenses decreased by \$1.3 million compared to last year. The major decreases were a decrease in Personal Service expenditures of \$0.6 million and a decrease in supply expenditures of \$0.7 million.

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

FY18 Operating Expenses by Functional Classification



Operating expenditures by functional classification remained relatively stable, as compared to FY17. The only changes, noteworthy, was a 3 percent decrease in the research category, offset by a 3% increase in Plant. The other categories remained the same or varied by 1 percent.

Statement of Cash Flows

The statement of cash flows presents information related to cash inflows and outflows. These transactions are classified as operating, non-operating, capital and investing activities. This statement helps measure the ability of the University to meet financial obligations as they mature. A comparative summary of the statement of cash flows for the years ended June 30, 2018 and 2017 is as follows:

Condensed Statement of Cash Flows

	<u>30-Jun-2018</u>	<u>30-Jun-2017</u>
Cash Provided/Used by:		
Operating Activities	\$ (9,987,162)	\$ (15,024,743)
Non-Capital Financing Activities	\$ 21,488,798	\$ 19,582,422
Capital Related Financing Activities	\$ (6,089,325)	\$ (3,043,700)
Investing Activities	\$ 111,253	\$ 126,508
Net increase (decrease) in cash	\$ 5,523,564	\$ 1,640,487
Cash - Beginning of year	\$ 13,014,260	\$ 11,373,773
Cash - End of year	<u>\$ 18,537,824</u>	<u>\$ 13,014,260</u>

SD Mines experienced a net cash increase of approximately \$5.5 million compared to the end of last fiscal year 2017. This is a result of a net change increase of cash received from grant revenues of \$3.3 million and a \$2.2 million reduction of cash used for operating expenses.

Economic Factors Impacting the Future

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

The University maintains a positive outlook for fiscal year 2019 and beyond. Strategic planning, focused in part on increasing enrollment, should well position SD Mines for the future, both academically and financially. This plan will allow the University to continue providing outstanding service to students, the citizens of South Dakota, the research community, and our country.

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

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

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

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**Statement of Net Position****June 30, 2018**

	FY2018	FY2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 15,829,811.09	\$ 10,841,069.91
Accounts Receivable - Student Accounts (net of allowance FY18, \$357,007; FY17, \$336,366)	381,643.73	349,913.55
Accounts Receivable - Sales and Services	1,707,047.83	2,048,998.60
Notes Receivable	348,195.90	334,566.35
Interest Receivable	167,846.15	174,935.39
Inventories	405,139.68	395,758.72
Due from Federal	2,017,585.06	4,469,535.53
Due from Primary	10,187.55	15,526.76
Due from Component Units	157,652.34	459,705.11
Prepaid Expenses	-	-
Unamortized Cost of Bond Issuance	-	4,283.51
Total Current Assets	<u>21,025,109.33</u>	<u>19,094,293.43</u>
Non-Current Assets:		
Cash and Cash Equivalents	\$ 2,708,012.85	\$ 2,173,190.33
Notes Receivable	2,053,170.19	2,039,013.26
Unamortized Cost of Bond Issuance	-	68,536.25
Construction in Progress	2,475,481.65	2,630,350.59
Buildings and Building Improvements (net of accumulated depreciation FY18, \$32,116,609; FY17, \$29,958,713)	76,826,232.10	67,743,170.33
Land	61,872.83	61,342.83
Land Improvements (net of accumulated depreciation FY18, \$1,569,086; FY17, \$2,491,584)	3,638,705.35	2,883,532.44
Infrastructure (net of accumulated depreciation FY18, \$3,878,256; FY17, \$3,622,590)	4,989,862.24	4,650,154.87
Equipment and Other Property (net of accumulated depreciation FY18, \$30,372,481; FY17, \$31,807,812)	7,619,006.19	7,321,915.74
Work in Progress Intangible Asset	41,329.08	-
Total Noncurrent Assets	<u>100,413,672.48</u>	<u>89,571,206.64</u>
TOTAL ASSETS	<u>\$ 121,438,781.81</u>	<u>\$ 108,665,500.07</u>
Deferred Outflows of Resources		
Loss on Debt Refunding	\$ 629,274.79	\$ 56,918.77
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 122,068,056.60</u>	<u>\$ 108,722,418.84</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	673,823.13	631,374.01
Accrued Wages & Benefits	775,521.82	858,277.69
Accrued Interest Payable	368,253.13	298,297.51
Compensated Absences Payable	1,032,259.51	886,951.22
Bonds Payable	1,424,214.17	1,037,889.05
Obligations under Capital Leases	1,032,459.16	1,352,289.33
Unearned Revenues	801,686.52	879,495.37
Due to Primary Government	46,709.56	45,645.07
Due to Other Component Units	266,631.90	643,815.84
Funds Held for Others	94,545.95	81,978.95
Student Deposits	145,678.23	132,585.87
Other Accrued Liabilities	36,410.84	60,735.47
Total Current Liabilities	<u>6,698,193.92</u>	<u>6,909,335.38</u>
Non-Current Liabilities:		
Compensated Absences Payable	2,369,054.22	2,430,245.40
Bonds Payable	33,031,253.32	23,064,692.40
Obligations under Capital Leases	1,558,177.59	2,588,938.04
Federal Capital Contribution Advance for Student Loans	1,511,583.00	1,511,583.00
Total Noncurrent Liabilities	<u>38,470,068.13</u>	<u>29,595,458.84</u>
TOTAL LIABILITIES	<u>\$ 45,168,262.05</u>	<u>\$ 36,504,794.22</u>
NET POSITION		
Invested in capital, net of related debt	\$ 61,470,673.23	\$ 60,818,473.44
Restricted, Nonexpendable:		
Loans	964,980.89	965,031.12
Restricted, Expendable:		
Debt Service	2,708,012.85	2,173,190.33
Unrestricted	11,756,127.58	8,260,929.73
TOTAL NET POSITION	<u>\$ 76,899,794.55</u>	<u>\$ 72,217,624.62</u>

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

ASSETS	2018	2017
Cash and Cash Equivalents (Note 2)	\$ 2,580,231	\$ 2,359,637
Investments (Notes 2, 6, and 7)	77,491,485	69,073,090
Unconditional Promises to Give, Net (Note 3)	4,508,571	4,666,633
Lease Receivable (Notes 4 and 8)	348,577	344,128
Rental Real Estate, Net (Notes 5, 6, and 8)	4,064,583	13,084,157
Land and Construction in Process - Alumni Center (Note 12)	402,500	-
Other Assets (Notes 6 and 7)	1,143,671	1,533,993
TOTAL ASSETS	\$ 90,539,618	\$ 91,061,638
LIABILITIES AND NET ASSETS		
Accounts Payable, Accrued Support, and Other (Notes 7 and 12)	\$ 1,235,607	\$ 792,310
Promise to Give to Others	2,262	208,206
Liability Under Charitable Remainder Trusts (Note 6)	2,940,145	3,347,209
Liability Under Charitable Gift Annuities (Note 7)	703,777	743,795
Notes Payable (Note 8)	1,041,387	10,055,425
Total Liabilities	5,923,178	15,146,945
Net Assets		
Unrestricted	3,176,216	1,317,644
Temporarily Restricted (Notes 9 and 11)	21,710,605	19,310,000
Permanently Restricted (Notes 10 and 11)	59,729,619	55,287,049
Total Net Assets	84,616,440	75,914,693
TOTAL LIABILITIES AND NET ASSETS	\$ 90,539,618	\$ 91,061,638

The accompanying notes are an integral part of these statements.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**Statement of Revenues, Expenses, and Changes in Net Position****June 30, 2018**

	FY2018	FY2017
Operating Revenues		
Tuition & Fees:		
State Support Tuition Allocation (net of scholarship allowances FY18, \$2,903,381; FY17, \$2,976,349)	\$ 13,828,029.03	\$ 14,276,210.59
Self Support Tuition (net of scholarship allowances FY18, \$172,374; FY17, \$184,603)	820,968.45	886,224.69
Student Fees (net of scholarship allowances FY18, \$1,566,454; FY17, \$1,203,452)	8,422,894.21	9,026,668.41
Auxiliary Sales & Services (net of scholarship allowances FY18, \$1,418,759; FY17, \$1,343,318)	7,727,390.25	7,440,390.17
General Sales & Services	1,925,554.41	1,614,418.27
Federal Grants & Contracts	10,637,341.77	11,587,704.71
State Grants & Contracts	2,758,319.58	2,782,028.02
Private Grants & Contracts	6,646,019.34	7,437,965.97
Student Loan Interest	28,103.52	39,790.02
Total Operating Revenues	52,794,620.56	55,091,400.85
Operating Expenses		
Personal Services	41,025,638.56	41,638,412.07
Travel	1,728,366.45	1,582,130.20
Contractual	10,753,443.08	10,482,572.73
Supplies and Materials	7,948,581.29	8,700,384.85
Grants & Subsidies	3,971,484.91	4,262,676.50
Other	84,447.72	104,401.33
Depreciation	4,243,100.18	4,239,911.47
Total Operating Expenses	69,755,062.19	71,010,489.15
Operating Loss	(16,960,441.63)	(15,919,088.30)
Nonoperating Revenues (Expenses)		
General Fund Appropriations	16,973,820.63	16,756,336.29
School & Public Lands	133,022.00	133,022.00
Higher Education Facilities Fund	2,170,093.49	486,059.17
Investment Income	109,525.12	111,232.99
PELL Grants	2,211,862.40	2,207,004.80
Interest on capital asset, related debt	(1,437,880.21)	(1,330,645.62)
Bond Issuance & Related Costs	(135,900.85)	(4,283.51)
Loss on Disposal of Assets	(717,112.70)	(13,758.44)
Net Nonoperating Revenues	19,307,429.88	18,344,967.68
Income Before Other Revenues, Expenses, Gains, or Losses	2,346,988.25	2,425,879.38
SD Building Authority Bond Proceeds	-	2,487,017.59
HEFF	1,680,813.16	1,219,418.55
Capital Grants & Contracts	567,521.57	366,065.04
BAB Subsidy	86,846.95	166,796.35
Change in Net Position	4,682,169.93	6,665,176.91
Net Position - Beginning of the year	72,217,624.62	65,552,447.71
Adjustment to beginning balance	-	-
Net Position - Beginning of year	72,217,624.62	65,552,447.71
Net Position - End of year	\$ 76,899,794.55	\$ 72,217,624.62

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, 2018, WITH COMPARATIVE TOTALS FOR 2017**

	2018				2017 TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	
Support, Gains, and Revenues					
Contributions	\$ 554,861	\$ 4,856,334	\$ 1,312,611	\$ 6,723,806	\$ 5,321,468
In-Kind Contributions (Note 1)	-	49,338	-	49,338	67,822
Wills and Bequests	1,000	105,718	632,822	739,540	320,271
Investment Income, Including Net Realized and Unrealized Gain and Rental Real Estate (Net of Fees and Expenses of \$658,508 and \$586,622 for the Years Ended June 30, 2018 and 2017, Respectively)	2,585,705	1,910,795	2,282,746	6,779,246	6,409,965
Unrealized Gain on Trust and Annuity Interests	-	107,646	214,391	322,037	643,744
Other Income	268,388	281,058	-	549,446	503,275
Net Assets Released from Restrictions (Note 9)	4,910,284	(4,910,284)	-	-	-
Total Support, Gains, and Revenues	8,320,238	2,400,605	4,442,570	15,163,413	13,266,545
Expenses					
<i>Program Services (Note 9)</i>					
Scholarships and Fellowships	2,636,834	-	-	2,636,834	2,796,154
General Student Assistance	462,652	-	-	462,652	343,920
General In-Kind Support to SDSM&T (Note 1)	49,338	-	-	49,338	67,822
General Support to SDSM&T	1,411,728	-	-	1,411,728	1,228,677
Total Program Services	4,560,552	-	-	4,560,552	4,436,573
<i>Supporting Services:</i>					
Fundraising	1,079,519	-	-	1,079,519	1,030,329
Administrative	821,595	-	-	821,595	805,954
Total Supporting Services	1,901,114	-	-	1,901,114	1,836,283
Total Expenses	6,461,666	-	-	6,461,666	6,272,856
Change in Net Assets	1,858,572	2,400,605	4,442,570	8,701,747	6,993,689
Net Assets -- Beginning of Year	1,317,644	19,310,000	55,287,049	75,914,693	68,921,004
Net Assets -- End of Year	\$ 3,176,216	\$ 21,710,605	\$ 59,729,619	\$ 84,616,440	\$ 75,914,693

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY
Statement of Cash Flows
June 30, 2018

	FY2018	FY2017
Cash Flows from Operating Activities		
Tuition & Fees	\$ 23,023,476.88	\$ 24,206,660.16
Auxiliary Sales & Services	\$ 7,728,741.32	7,441,160.43
Federal Grants and Contracts	\$ 13,076,568.35	\$ 10,135,171.01
Other Grants and Contracts	\$ 10,149,336.02	9,625,565.73
General Sales & Services	\$ 1,749,856.44	1,551,689.57
Other Revenue	\$ 10,091.61	26,001.30
Loans issued to students	\$ (340,075.00)	(369,497.61)
Loans collected from students	\$ 306,850.27	339,053.90
Personal Services	\$ (41,024,277.32)	(41,890,409.32)
Travel	\$ (1,727,301.96)	(1,577,785.37)
Contractual	\$ (11,100,954.35)	(11,690,193.07)
Supplies and noncapitalized equipment	\$ (7,957,962.25)	(8,559,063.85)
Grants & Subsidies	\$ (3,971,484.91)	(4,262,676.50)
Other Expenses	\$ (5,941.53)	(419.53)
Net cash provided (used) by operating activities	<u>(10,083,076.43)</u>	<u>(15,024,743.15)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	17,106,842.63	16,889,358.29
Higher Education Facilities Fund	2,170,093.49	486,059.17
PELL Grants	2,211,862.40	2,207,004.80
Direct and PLUS Loan Receipts	12,569,167.00	12,777,942.00
Direct and PLUS Loan Disbursements	<u>(12,569,167.00)</u>	<u>(12,777,942.00)</u>
Net cash flows provided by noncapital financing activities	<u>21,488,798.52</u>	<u>19,582,422.26</u>
Cash Flows from Capital and Related Financing Activities		
State Building Authority	-	2,487,017.59
Capital Grants & Contracts	567,521.57	366,065.04
Higher Education Facilities Fund	1,680,813.16	1,219,418.55
Build America Bond Subsidy	86,846.95	166,796.35
Revenue Bond Discounts/Premiums & related costs	1,592,448.93	(54,294.18)
Proceeds from Capital Debt	17,085,481.75	2,653,507.94
Principal Paid on Capital Related Debt	(10,311,072.37)	(1,845,833.61)
Interest Paid on Capital Related Debt	(1,367,924.59)	(1,341,068.43)
Purchase of capital assets	<u>(15,327,526.57)</u>	<u>(6,695,309.84)</u>
Net cash used by capital and related financing activities	<u>(5,993,411.17)</u>	<u>(3,043,700.59)</u>
Cash Flows from Investing Activities		
Investment Income	<u>111,252.78</u>	<u>126,508.39</u>
Net increase in cash	5,523,563.70	1,640,486.91
Cash and Cash Equivalents - Beginning of year	13,014,260.24	11,373,773.33
Cash and Cash Equivalents - End of year	<u>\$ 18,537,823.94</u>	<u>\$ 13,014,260.24</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	\$ (16,960,441.63)	\$ (15,919,088.30)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,243,100.18	4,239,911.47
Change in assets and liabilities:		
Prepaid Expenses	-	-
Receivables, net	3,047,138.14	(1,359,269.31)
Inventories	(9,380.96)	141,321.00
Deferred Revenue	(77,808.85)	(651,301.68)
Payables, net	(325,683.31)	(1,476,316.33)
Net Cash Used by Operating Activities	<u>\$ (10,083,076.43)</u>	<u>\$ (15,024,743.15)</u>
Noncash Transactions		
Loss on Disposal of Capital Assets	\$ (728,312.70)	\$ (38,758.44)
Loan Cancellation Expense	\$ (29,049.85)	\$ (4,953.06)

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities		
Revenue Collected:		
Other Revenue - Contributions	\$ 6,613,562	\$ 6,137,341
Payments for Expenses:		
Personal Services	(1,219,089)	(1,178,475)
Travel	(478,524)	(481,868)
Contractual	(321,754)	(300,112)
Supplies and Materials	(893,558)	(1,077,936)
Grants and Subsidies	(3,462,727)	(3,639,146)
Interest Paid	(229,256)	(295,879)
Net Cash Flows Provided by (Used in) Operating Activities	8,654	(836,075)
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	13,660,257	45,625,877
Purchases of Investments	(16,836,448)	(48,341,351)
Change in Notes and Leases Receivable	(4,449)	15,567
Alumni Center Construction in Progress	(122,560)	-
Proceeds from Sale of Rental Real Estate	10,790,320	-
Purchase of Rental Property	(310,000)	-
Purchase of Land	-	(45,793)
Net Cash Flows Provided by (Used in) Investing Activities	7,177,120	(2,745,700)
Cash Flows from Financing Activities		
Contributions Restricted for Endowment Purposes	2,071,585	2,520,915
Payments on Notes Payable	(9,014,038)	(14,759)
Decrease in Other Liabilities	(22,727)	(45,514)
Net Cash Flows Provided by (Used in) Financing Activities	(6,965,180)	2,460,642
Net Change in Cash and Cash Equivalents	220,594	(1,121,133)
Cash and Cash Equivalents -- Beginning of Year	2,359,637	3,480,770
Cash and Cash Equivalents -- End of Year	\$ 2,580,231	\$ 2,359,637

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of Increase in Net Assets to Net Cash Flows		
Provided by (Used in) Operating Activities		
Increase in Net Assets	\$ 8,701,747	\$ 6,993,689
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows</i>		
<i>Provided by (Used in) Operating Activities:</i>		
Depreciation	106,005	269,729
Net Realized and Unrealized Gain on Investments, Property, Trust and Annuity Interests	(7,301,980)	(7,599,695)
Contributions Restricted for Endowment Purposes	(1,945,434)	(2,289,211)
Change in Receivables and Pledges Other Than Endowments	427,282	2,283,624
Change in Payables	226,978	(234,895)
Change in Promise to Give to Others	(205,944)	(259,316)
Net Cash Flows Provided by (Used) in Operating Activities	\$ 8,654	\$ (836,075)
 Supplemental Schedule of Non-cash Investing and Financing Activities		
Gain on Sale of Rental Real Estate (Note 5)	\$ 1,594,012	\$ -
Rental Real Estate Purchased with Long-Term Debt	-	2,196,564
Accounts Payable converted to Long-Term Debt	-	1,055,891
Construction in Process Included in Accounts Payable (Note 12)	227,299	-

The accompanying notes are an integral part of these statements.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

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

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

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

B. Reporting Entity:

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

The Foundation is a legally separate, tax exempt component unit of SDSM&T. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to SDSM&T, in support of its education and research programs. Although, SDSM&T does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereof that the Foundation holds and invests is restricted to the activities of SDSM&T by the donors. During the year ending June 30, 2018, the Foundation distributed \$4,511,214 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, 2018 were \$738,651 with an allowance for uncollectible accounts of \$357,007 and a net student receivable of \$381,644. The South Dakota Bureau of Finance and Management (BFM) approved write offs of student accounts in the amount of \$1,668 for FY18.

Accounts receivable for Sales and Service is made up primarily of non-Federal grant and contract reimbursements, in the amount of \$1,092,593, as of June 30, 2018. The remainder of this receivable consists of refundable deposits, travel advances and other receivables, unrelated to grants. The direct write-off method is used for uncollectible receivables for sales and service.

F. Notes Receivable:

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

G. Investments:

SDSM&T investments consist of funds on deposit with the State Treasurer, which are pooled by the State Investment Council for investment purposes. Investments are reported at cost, as market values are not readily determined for these funds. Other cash and temporary investments were redefined as non-participating during fiscal year 1985. Interest earned from these funds is under control of the State Treasurer and is credited to the State of South Dakota's General Fund, not to SDSM&T. The University receives interest earnings from the State for funds considered participating. Participating funds include Renewals and Replacement, Retirement of Indebtedness, Unexpended Plant, the Perkins Student Loan program, unexpended federal grant revenues, and auxiliary revenues.

H. Inventories:

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

I. Due to/Due from:

Due from Federal represents expenditures made on federal grants for which reimbursement has not been received, as of June 30, 2018. 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, 2018 is as follows:

Footnote IX Capital Asset Disclosure

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 61,342.83	\$ 530.00	\$ -	\$ 61,872.83
Land Improvements	\$ 5,375,116.21	\$ 1,505,132.70	\$(1,672,457.16)	\$ 5,207,791.75
Infrastructure	\$ 8,272,744.86	\$ 595,373.72	\$ -	\$ 8,868,118.58
Buildings	\$ 97,701,883.75	\$ 11,240,957.61	\$ -	\$ 108,942,841.36
Equipment & other property	\$ 36,911,583.26	\$ 2,064,854.69	\$(1,058,932.13)	\$ 37,917,505.82
Library materials	\$ 2,218,144.85	\$ 28,926.66	\$ (33,753.60)	\$ 2,213,317.91
Total	\$ 150,540,815.76	\$ 15,435,775.38	\$(2,765,142.89)	\$ 163,211,448.25
Less accumulated depreciation:				
Land Improvements	\$ 2,491,583.77	\$ 190,516.05	\$(1,113,013.42)	\$ 1,569,086.40
Infrastructure	\$ 3,622,589.99	\$ 255,666.35	\$ -	\$ 3,878,256.34
Buildings	\$ 29,958,713.42	\$ 2,157,895.84	\$ -	\$ 32,116,609.26
Equipment & other property	\$ 29,651,667.60	\$ 1,622,076.19	\$ (901,263.17)	\$ 30,372,480.62
Library materials	\$ 2,156,144.77	\$ 16,945.75	\$ (33,753.60)	\$ 2,139,336.92
Total	\$ 67,880,699.55	\$ 4,243,100.18	\$(2,048,030.19)	\$ 70,075,769.54
Capital Assets, net	\$ 82,660,116.21	\$ 11,192,675.20	\$ (717,112.70)	\$ 93,135,678.71

K. Museum Collection:

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

L. Intangible Assets:

In June 2018, LogRhythm Enterprise software licenses were purchased for the university system by the Board of Regents at a cost of \$546,484. The software expense was billed back to the universities after the end of the FY18 fiscal year. Each university will amortize their share of the software as an intangible asset beginning in FY19. On the FY18 financials, the software is being reported as Work in Progress Intangible Asset, for SDSM&T's share of \$41,329, since the software was not installed prior to June 30, 2018.

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, 2018 were \$1,641,456.

IV. STATE APPROPRIATIONS

The General fund appropriation amount on the financials is reflective of the amount spent during the fiscal year. The State General Fund appropriation for FY18 was \$16,984,000. SDSM&T reverted unspent funds, in the amount of \$10,179 back to the General fund.

V. TUITION AND HEFF

SDSM&T received tuition revenue in the amount of \$16,519,478, during fiscal year 2018. Of this amount, \$2,317,381 was remitted to the Board of Regents and deposited into the Higher Education Facilities Fund (HEFF). An additional \$121,510 was remitted to the Board for technology and the Electronic University Consortium. The HEFF revenue reported on these statements reflects only the amount of maintenance and repair (M&R) revenues spent in FY18. SDSM&T spent \$2,953,424 from the HEFF pool and an additional \$863,390 from the Board of Regents General Fund appropriation for facility M&R. These amounts are combined on the HEFF non-operating and capital revenue lines in the financial report.

VI. ENDOWMENT AND SIMILAR FUNDS

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

VII. FUNDS HELD FOR OTHERS

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

VIII. LONG TERM DEBT AND OTHER OBLIGATIONS

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Due Within One Year
Revenue Bonds, Payable					
Series 2008B	\$2,805,000	\$0	(\$205,000)	\$2,600,000	\$210,000
Series 2009	\$8,345,000	\$0	(\$7,970,000)	\$375,000	\$375,000
Series 2014A	\$6,340,000	\$0	(\$170,000)	\$6,170,000	\$180,000
Series 2014B	\$5,655,000	\$0	(\$245,000)	\$5,410,000	\$255,000
Series 2017	\$0	\$16,715,000	\$0	\$16,715,000	\$225,000
Lease Obligations	\$3,941,227	\$370,482	(\$1,721,072)	\$2,590,637	\$1,032,459
Total Long-Term Debt	\$27,086,227	\$17,085,482	(\$10,311,072)	\$33,860,637	\$2,277,459
Compensated Absences	\$3,317,197	\$1,384,220	(\$1,300,103)	\$3,401,314	\$886,951
Federal Portion of Loan Programs	\$1,511,583	\$0	\$0	\$1,511,583	\$0

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 FY18 is \$2,992,463.

Revenue bond payables, as of June 30, 2018, 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

Housing and Auxiliary Facilities Revenue Bonds, Series 2017

Partial refunding of Series 2009 bond, Placer Hall purchase

Date of Issuance: December 21, 2017

Bond Proceeds: \$16,715,000

Variable Interest rate: 3%-5%

Term: 25 years

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

	Total Bonds Payable	Short Term Portion	Long Term Portion
Bonds Payable	\$31,270,000	\$1,245,000	\$30,025,000
Premium	\$3,185,467	\$179,214	\$3,006,253
Original Issue Discount	\$0	\$0	\$0
Per Statement of Net Position	\$34,455,467	\$1,424,214	\$33,031,253

Long-Term Leases, Payable includes the lease of the President's house, owned by the Foundation, in the amount of \$355,623, leases for tablet computers purchased for our students, in the amount of \$1,924,388, and a lease for residence hall furniture in the amount of \$310,625. SDSM&T renewed the lease on the President's house in FY18, after the house was refinanced. The new lease is payable over six years in the amount of \$370,482.

The annual requirements to amortize all long-term leases outstanding, as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
FY2019	\$ 1,032,459.16	\$ 99,279.80	\$ 1,131,738.96
FY2020	\$ 676,947.35	\$ 59,500.81	\$ 736,448.16
FY2021	\$ 584,661.47	\$ 31,460.52	\$ 616,121.99
FY2022	\$ 21,318.49	\$ 11,563.67	\$ 32,882.16
FY2023	\$ 275,250.28	\$ 2,778.50	\$ 278,028.78

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, 2018 pay rate.

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

IX. OPERATING LEASES

SDSM&T has entered into operating lease agreements for copiers, student housing, and space used for instructional and research purposes. The copier leases were renewed during FY18. The university is currently leasing two buildings for student housing from Technology Housing, LLC. This lease was initiated in August 2014 for a period of 10 years. The remaining amount on this lease is \$7,808,000. The Placer Hall building that was leased from the SDSM&T Foundation in FY17 was purchased in FY18, reducing our lease obligation by \$31,846,047. The university also has leases for space in the Foundation and Black Hills Business Development Center. Lease payments are reported as operating expense. A summary of changes in operating leases follows:

<u>Balance</u> <u>7/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2018</u>
<u>\$41,593,392</u>	<u>\$84,034</u>	<u>\$(33,718,333)</u>	<u>\$7,959,093</u>

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

For Year Ended June 30,	
2019	\$ 1,423,136.24
2020	\$ 1,284,970.64
2021	\$ 1,282,985.74
2022	\$ 1,280,000.00
2023	\$ 1,280,000.00
Thereafter	\$ 1,408,000.00

X. FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other Expense	Depreciation	Total
Instruction	\$19,498,121	\$462,632	\$561,239	\$847,273	\$3,000	\$3	\$1,140,877	\$22,513,145
Research	\$6,012,176	\$405,806	\$463,067	\$607,380	\$1,879,786	\$39	\$1,217,760	\$10,586,014
Public Service	\$612,189	\$12,141	\$98,576	\$168,938	\$0	\$29	\$14,034	\$905,906
Academic Support	\$3,052,731	\$94,243	\$886,387	\$437,409	\$0	\$0	\$244,267	\$4,715,037
Student Services	\$4,371,450	\$608,839	\$531,538	\$640,053	\$0	\$212	\$394,715	\$6,546,807
Institutional Support	\$3,851,738	\$99,682	\$1,154,219	\$179,967	\$0	\$35,704	\$100,580	\$5,421,891
O&M of Plant	\$2,596,688	\$35,012	\$949,965	\$3,343,855	\$0	\$0	\$649,272	\$7,574,792
Scholarships and Fellowships	\$0	\$0	\$0	\$0	\$2,088,698	\$48,460	\$0	\$2,137,159
Auxiliary Enterprises	\$1,030,544	\$10,011	\$6,108,452	\$1,723,706	\$0	\$0	\$481,596	\$9,354,311
Total	\$41,025,639	\$1,728,366	\$10,753,443	\$7,948,581	\$3,971,485	\$84,448	\$4,243,100	\$69,755,062

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

(1) Summary of Significant Accounting Policies

Operations

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

Use of Estimates

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

Basis of Presentation

The financial statements of the Foundation are prepared using the accrual basis of accounting. The classification of net assets, revenues and expenses, and gains and losses is based on the existence or absence of donor-imposed restrictions. Amounts of each of the three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) are displayed in the Statements of Financial Position and the Statement of Activities and Changes in Net Assets.

Investments

The Foundation accounts for its investment securities at fair market value with changes in fair market value accounted for in the Statement of Activities and Changes in Net Assets. Realized gains and losses from sales of securities are determined on a specific identity basis. Unrealized gains and losses are recognized in the Statement of Activities and Changes in Net Assets to the extent of the change in aggregate market value of investments at the end of each accounting period. Investment expense of \$85,726 and \$100,971 is netted against the investment income for the years ended June 30, 2018 and 2017, 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.

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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(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, experience with donors, and historical losses.

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

On an annual basis, the Foundation revalues the "Liability under Charitable Remainder Trusts" and the "Liability under Charitable Gift Annuities" based on actuarial assumptions and present value calculations. For trusts, this liability consists of unearned 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, 2018 and 2017. 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." Investment 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.

In-Kind Contributions

The Foundation records various types of in-kind support, including products and services, at fair market value at the time of the gift. Professional services received are recognized as revenue if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses and total \$49,338 and \$67,822 for the years ended June 30, 2018 and 2017, respectively.

Depreciation

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

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

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, 2018, the Foundation believes no significant uncertain tax positions or liabilities exist.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(1) Summary of Significant Accounting Policies (Continued)

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.

Rental Real Estate

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

The Foundation evaluates its rental real estate for potential impairment losses when indicators of impairment are present and the carrying amount of long-lived assets exceeds its fair value. In addition, useful lives of long-lived assets are reviewed annually. The Foundation evaluated rental real estate at June 30, 2018, based on anticipated proceeds. Management anticipates no impairment losses.

Subsequent Events

The Foundation has evaluated significant subsequent events through October 10, 2018, 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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(1) Summary of Significant Accounting Policies (Concluded)

Emerging Accounting Standards (Continued)

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

In 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.

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

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2018 AND 2017**

(2) Investments

Investments consist of the following investment types at June 30:

	2018		2017	
	Fair Market Value	Cost	Fair Market Value	Cost
Money Market Funds included in Cash and Cash Equivalents	\$ 2,353,442	\$ 2,353,442	\$ 1,651,062	\$ 1,651,062
Government Securities/Corporate Bonds/CDs	8,723,462	8,720,833	4,906,111	4,875,057
Bond Funds	17,919,890	18,198,760	16,819,560	16,859,403
Stocks	956,466	749,483	989,489	779,702
Stock Funds	41,725,178	35,630,864	37,703,345	33,793,960
Alternatives	3,285,929	1,676,928	4,400,630	3,413,947
Real Estate Funds	4,880,560	2,524,827	4,253,955	2,214,709
Total Investments	77,491,485	67,501,695	69,073,090	61,936,778
	\$ 79,844,927	\$ 69,855,137	\$ 70,724,152	\$ 63,587,840

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

	2018	2017
Due in one year or less	\$ 6,450,000	\$ 4,240,000
Due after one year through five years	2,270,437	661,964
Due after five years through ten years	-	-
Due after ten years	3,025	4,147
	\$ 8,723,462	\$ 4,906,111

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy is defined as follows:

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2018 AND 2017**

(2) Investments (Continued)

The following tables present the assets carried at fair value as of June 30, 2018 and 2017, 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, 2018	Level One	Level Two	Level Three	NAV per Share	Total
Money Market Funds included in					
Cash and Cash Equivalents	\$ 2,353,442	\$ -	\$ -	\$ -	\$ 2,353,442
Gov Sec/Corp Bonds/CDs	-	-	-	8,723,462	8,723,462
Bond Funds	17,919,890	-	-	-	17,919,890
Low-Correlated Hedge Funds	-	-	-	162,298	162,298
Illiquid Credit	-	-	-	1,114,278	1,114,278
Private Equity	-	-	-	2,009,353	2,009,353
Real Estate Funds	172,411	-	-	4,708,149	4,880,560
Large-Cap Equity Funds	17,829,469	-	-	-	17,829,469
Small/Mid-Cap Equity Funds	7,234,484	-	-	-	7,234,484
International Equity Funds	15,847,719	-	-	-	15,847,719
Balanced Mutual Funds	813,506	-	-	-	813,506
Large-Cap Stock	919,435	-	-	-	919,435
International Stock	37,031	-	-	-	37,031
	\$ 63,127,387	\$ -	\$ -	\$ 16,717,540	\$ 79,844,927

June 30, 2017	Level One	Level Two	Level Three	NAV per Share	Total
Money Market Funds included in					
Cash and Cash Equivalents	\$ 1,651,062	\$ -	\$ -	\$ -	\$ 1,651,062
Gov Sec/Corp Bonds/CDs	-	-	-	4,906,111	4,906,111
Bond Funds	16,819,560	-	-	-	16,819,560
Low-Correlated Hedge Funds	-	-	-	1,301,602	1,301,602
Illiquid Credit	-	-	-	1,005,658	1,005,658
Private Equity	-	-	-	2,093,370	2,093,370
Real Estate Funds	216,848	-	-	4,037,107	4,253,955
Large-Cap Equity Funds	16,555,141	-	-	-	16,555,141
Small/Mid-Cap Equity Funds	6,485,125	-	-	-	6,485,125
International Equity Funds	13,600,584	-	-	-	13,600,584
Balanced Mutual Funds	1,062,495	-	-	-	1,062,495
Large-Cap Stock	936,341	-	-	-	936,341
International Stock	53,148	-	-	-	53,148
	\$ 57,380,304	\$ -	\$ -	\$ 13,343,848	\$ 70,724,152

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(2) Investments (Continued)

The Foundation uses the Net Asset Value (NAV) to determine the fair value of underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. 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 following tables list investments valued using NAV by major category:

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

June 30, 2017	<u>Fair Value</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Gov Sec/Corp Bonds/CDs	\$ 4,906,111	\$ -	Daily	3 Days
Low-Correlated Hedge Funds	1,301,602	-	Annually	61 to 100 Days
Illiquid Credit	1,005,658	887,372	**	N/A
Private Equity	2,093,370	1,141,019	*	N/A
Real Estate Funds	4,037,107	-	Quarterly	60 Days
	\$ 13,343,848	\$ 2,028,391		

* 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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2018 AND 2017**

(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:

	2018	2017
Receivable in less than one year	\$ 1,496,488	\$ 1,578,662
Receivable in one to five years	1,879,624	2,019,875
Receivable in six years	1,977,100	1,989,725
	5,353,212	5,588,262
Less discounts to net present value	576,980	642,215
Less allowance for uncollectible promises	267,661	279,414
Net Promises to Give	\$ 4,508,571	\$ 4,666,633

(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, 2018 and 2017, is \$348,577 and \$344,128, respectively. Income recognized on the lease was \$12,115 and \$18,181 during the years ended June 30, 2018 and 2017, respectively.

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

2019	\$ 18,804
2020	19,879
2021	20,676
2022	21,505
2023	22,000
Thereafter	245,713
	\$ 348,577

(5) Rental Real Estate

Rental real estate consists of the following at June 30:

	2018	2017
Land, at cost	\$ 1,509,607	\$ 1,550,597
Buildings, at cost	2,942,953	12,112,513
Real estate partnership interest, at cost	469,766	469,766
	4,922,326	14,132,876
Accumulated depreciation	(857,743)	(1,048,719)
Net Book Value	\$ 4,064,583	\$ 13,084,157

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(5) Rental Real Estate (Continued)

The Foundation leases these properties primarily to SDSM&T and its students under operating leases with various lease terms. Approximate minimum lease payments to be received related to leases with terms longer than one year are as follows: 2019: \$158,400.

During the year ended June 30, 2018, the Foundation sold the student housing building to SDSM&T, resulting in a gain on sale in 2018 of \$1,728,178 included in investment income on the Statement of Activities and Changes in Net Assets. The building was financed through a note payable with US Bank which was paid in full upon sale of the building.

(6) Charitable Remainder Trusts

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

	2018			2017		
	<u>Market Value</u>	<u>Recorded Net Asset Value</u>	<u>Liability Under Trusts</u>	<u>Market Value</u>	<u>Recorded Net Asset Value</u>	<u>Liability Under Trusts</u>
Charitable Unitrusts	\$ 6,118,138	\$ 3,846,167	\$ 2,271,971	\$ 6,510,798	\$ 3,832,034	\$ 2,678,764
Charitable Annuity Trusts	1,126,896	458,722	668,174	1,097,515	429,070	668,445
	\$ 7,245,034	\$ 4,304,889	\$ 2,940,145	\$ 7,608,313	\$ 4,261,104	\$ 3,347,209

During the year ended June 30, 2018, there were three trust terminations that provided \$255,033 to support the charitable purposes at SDSM&T. Additionally, \$257,644 in funds were disbursed to three other charities and one beneficiary. The Foundation is the remainderman for 96 and 95 percent of the market value listed above for each of the years ended June 30, 2018 and 2017, respectively.

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

	<u>Market Value</u>	
	2018	2017
Investments	\$ 7,015,890	\$ 7,379,627
Rental Real Estate	210,000	210,000
Other Assets	19,144	18,686
	\$ 7,245,034	\$ 7,608,313

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2018 AND 2017**

(7) Liability under Charitable Gift Annuities

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

	2018	2017
Market Value	\$ 1,696,210	\$ 1,667,969
Recorded at Present Value	992,433	924,174
Liability Under Charitable Gift Annuities	\$ 703,777	\$ 743,795

During the year ended June 30, 2018, there was one new annuity with a fair market value of \$16,130 and a present value of \$8,189. There was one annuity termination. At termination, \$20,100 was available to support charitable purposes. The Foundation is the remainderman for 100 percent of the market value listed above for each of the years ended June 30, 2018 and 2017.

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

	2018	2017
Investments	\$ 1,695,310	\$ 1,666,648
Other Assets	900	1,731
Accounts Payable	-	(410)
	\$ 1,696,210	\$ 1,667,969

(8) Notes Payable

Notes payable consists of the following at June 30:

	2018	2017
Mortgage note payable to Rapid City Economic Development Foundation, due in one balloon payment, including interest at 2.00 percent through December 30, 2018; secured by the rental property.	\$ 686,000	\$ 686,000
Mortgage note payable to a bank, due in quarterly payments of \$8,221, including interest at 3.95 percent through July 31, 2022; when the remaining balance of approximately \$275,000 is due; secured by the residence of the President of SDSM&T (Note 4).	355,387	-
Paid in Full during 2018	-	9,369,425
	1,041,387	10,055,425
Current maturities of notes payable	704,804	9,013,802
	\$ 336,583	\$ 1,041,623

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) **JUNE 30, 2018 AND 2017**

(8) Notes Payable (Continued)

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

2019	\$	704,804
2020		19,879
2021		20,676
2022		21,505
2023		274,523
	\$	1,041,387

(9) Temporarily Restricted Net Assets

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

	2018	2017
Scholarships and Fellowships	\$ 5,344,770	\$ 4,571,271
General Student Assistance	1,040,713	1,019,916
General Support to SDSM&T	12,651,345	11,013,126
Pledge Donations - Timing Restriction - Determined by Donor at Later Date	2,673,777	2,705,687
	\$ 21,710,605	\$ 19,310,000

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, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	2018	2017
<i>Purpose of Restriction Accomplished:</i>		
Scholarships and Fellowships	\$ 2,588,084	\$ 2,796,154
General Student Assistance	462,652	343,920
General Support to SDSM&T	1,810,210	1,226,524
In-Kind Contributions (Note 1)	49,338	67,822
	\$ 4,910,284	\$ 4,434,420

(10) Permanently Restricted Net Assets

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

	2018	2017
Scholarships and Fellowships	\$ 37,983,142	\$ 34,341,608
General Student Assistance	2,116,068	1,926,030
General Support to SDSM&T	17,795,615	17,058,465
Pledge Donations	1,834,794	1,960,946
	\$ 59,729,619	\$ 55,287,049

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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2018 AND 2017

(11) Endowed Net Assets

The Foundation is governed subject to the Investment Policy Statement adopted by the Board of Directors, and most contributions are received subject to the terms of this statement. Under the terms of the Investment Policy Statement, the Board of Directors has the ability to allocate earnings to spending and to fund accumulation. Funds held for accumulation are 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.

The following represents endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ 4,218,355	\$ 55,287,049	\$ 59,505,404
Board-Designated Endowment Funds	-	893,208	-	893,208
Endowment Assets - June 30, 2017	-	5,111,563	55,287,049	60,398,612
Donor Restricted Endowment Funds	-	4,893,108	59,729,619	64,622,727
Board-Designated Endowment Funds	-	921,533	-	921,533
Endowment Assets - June 30, 2018	\$ -	\$ 5,814,641	\$ 59,729,619	\$ 65,544,260