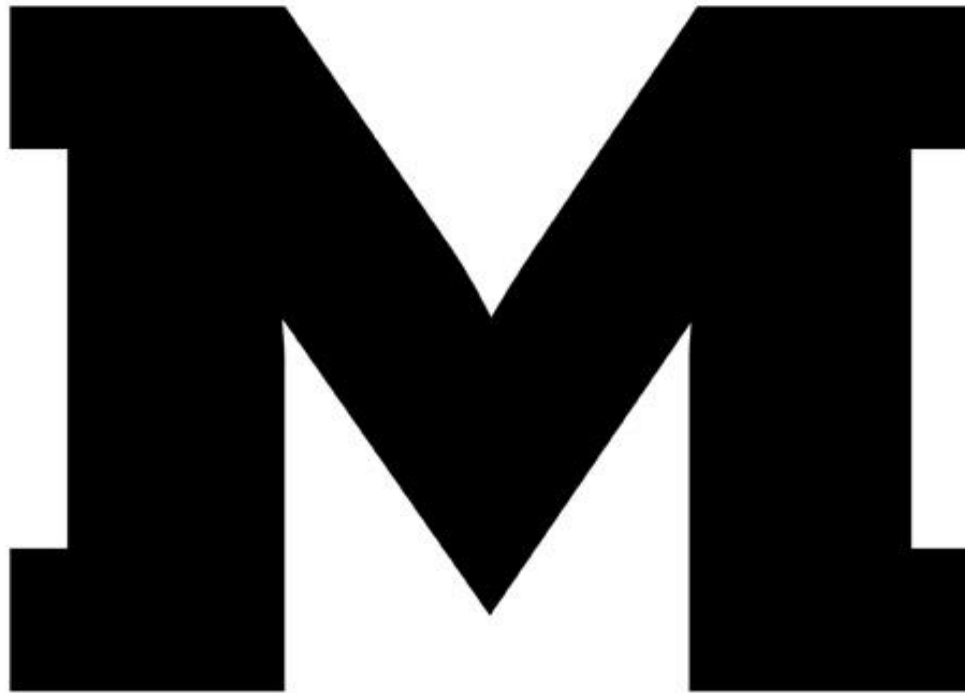


SOUTH DAKOTA



**SCHOOL OF MINES
& TECHNOLOGY**

2017

FINANCIAL REPORT

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

For the Year Ended June 30, 2017

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SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

Rapid City, South Dakota

FINANCIAL REPORT

For the Year Ended June 30, 2017

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

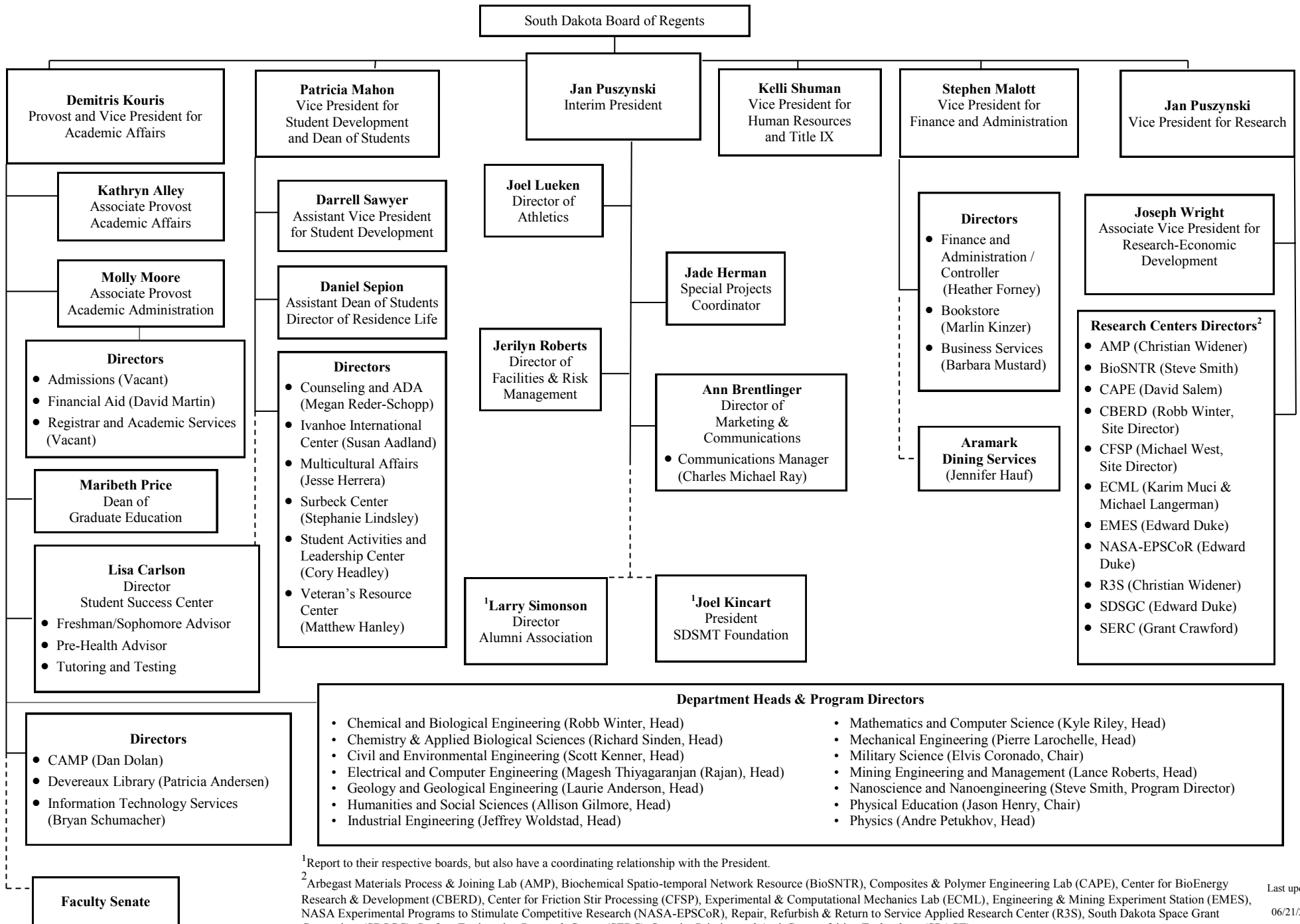
South Dakota School of Mines and Technology Executive Administration

Dr. Jan Puszynski, Interim 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



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

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

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, 2017, along with comparative data for the fiscal year ended June 30, 2016.

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 provides an overview of the financial position and activities of South Dakota School of Mines and Technology (SD Mines) for the year ended June 30, 2017. 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-2017</u>	<u>30-Jun-2016</u>
ASSETS		
Current assets	\$ 19,094,293	\$ 16,423,166
Noncurrent assets	\$ 89,571,207	\$ 86,957,874
Deferred outflow of resources	<u>\$ 56,919</u>	<u>\$ 60,514</u>
Total assets and deferred outflows	<u>\$108,722,419</u>	<u>\$103,441,554</u>
LIABILITIES		
Current liabilities	\$ 6,909,335	\$ 8,338,180
Noncurrent liabilities	<u>\$ 29,595,459</u>	<u>\$ 29,550,926</u>
Total liabilities	<u>\$ 36,504,794</u>	<u>\$ 37,889,106</u>
NET POSITION		
Invested in capital assets, net of related debt	\$ 60,818,473	\$ 57,623,192
Restricted	\$ 3,138,221	\$ 2,522,965
Unrestricted	<u>\$ 8,260,930</u>	<u>\$ 5,406,291</u>
Total Net Position	<u><u>\$ 72,217,625</u></u>	<u><u>\$ 65,552,448</u></u>

- Total assets increased by \$5.3 million, due to a \$2.7 million net increase in cash and a \$2.6 million increase in physical plant assets.
- SD Mines' largest asset is its investment in physical plant, representing \$85 million of noncurrent assets.
- Liabilities decreased \$1.4 million due to payments of bond and loan obligations.
- SD Mines' largest liability is revenue bonds payable of \$23 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

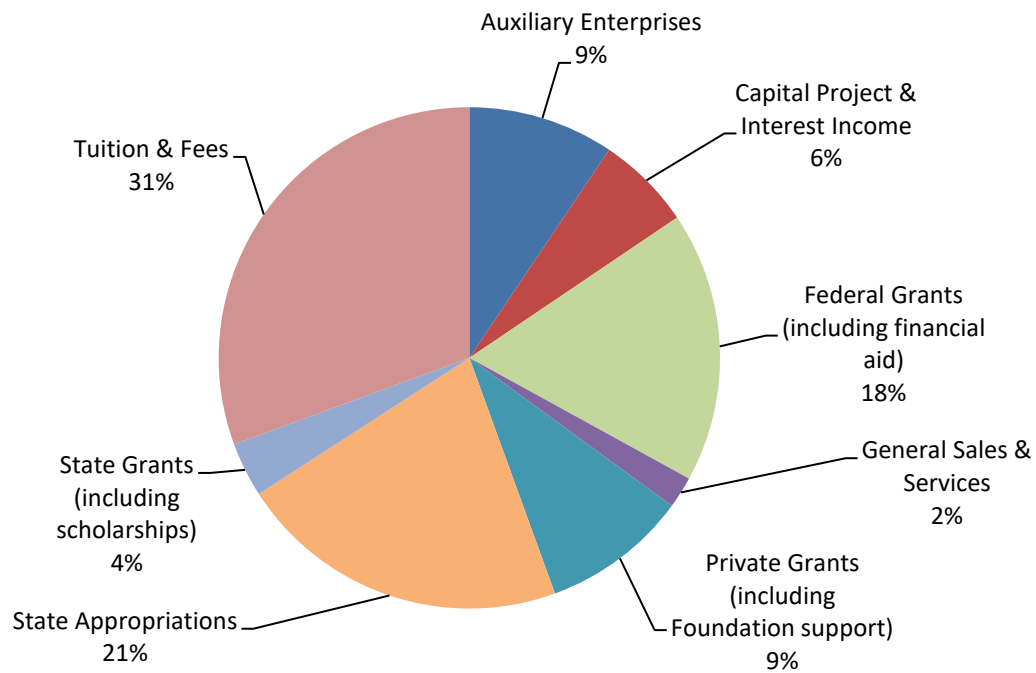
	<u>30-Jun-2017</u>	<u>30-Jun-2016</u>
Operating Revenues	\$ 55,091,401	\$ 51,794,587
Operating Expenses	<u>\$ 71,010,489</u>	<u>\$ 64,964,649</u>
Operating Loss	\$ (15,919,088)	\$ (13,170,062)
Non-Operating Revenues	\$ 19,693,656	\$ 19,658,885
Non-Operating Expenses	<u>\$ 1,348,688</u>	<u>\$ 2,082,547</u>
Net Gain/(Loss) before capital contributions	\$ 2,592,676	\$ 4,406,276
Capital Contributions	<u>\$ 4,239,297</u>	<u>\$ 6,587,274</u>
Increase(Decrease) in Net Position	\$ 6,665,177	\$ 10,993,550
Net Position, Beginning of Year	<u>\$ 65,552,448</u>	<u>\$ 54,558,898</u>
Net Position, End of Year	<u><u>\$ 72,217,625</u></u>	<u><u>\$ 65,552,448</u></u>

- Operating revenues increased by \$3.3 million over last year. Increases in operating revenues consisted of \$1.7 million from private grants; \$577 thousand from tuition and fees, \$487 thousand from Federal grants; \$520 thousand from Auxiliaries and General Sales.
- Operating expenses increased by \$6 million over the last year. The largest increases included \$2.3 million for salaries and benefits and \$2.6 million in capital outlay for tablet computers for students, furniture leased for new residence hall, research lab equipment and non-capital building improvements. Other increases were for contractual services and financial aid to students.
- State appropriations, totaling \$16.8 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, \$2.5 million from SD Building Authority Bond Proceeds, \$366 thousand from Capital Grants, and \$167 thousand from the Build American Bond Subsidy in FY17; for projects including the renovation of the Chemical Engineering building, capital equipment, and building upgrades.

Revenues

The chart below is an illustration of SD Mines' major revenue sources, for the year ended June 30, 2017:

FY17 Source of Revenues

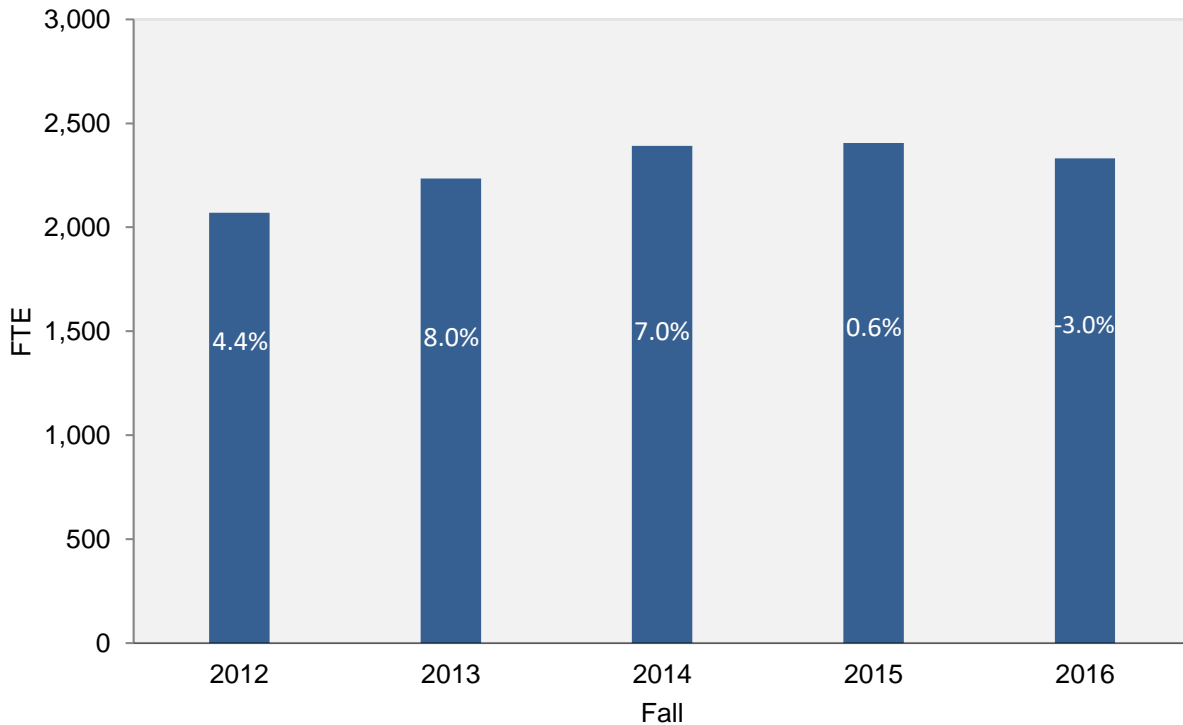


Tuition and state appropriations are the primary sources of funding for the institution's academic program, representing approximately 52% of overall revenues.

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, excluding fiscal year 2016, with hopes of continued increases over the next 5 years.

FTE Enrollment Trend



Operating Expenses

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

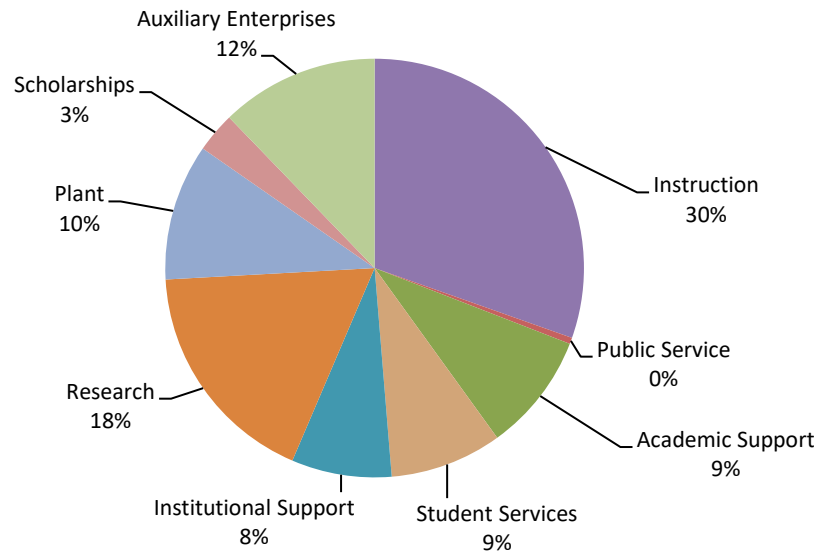
Operating Expenses Natural Classification

	<u>2017</u>	<u>2016</u>
Personal Services	\$41,638,412	\$39,388,095
Travel	\$ 1,582,130	\$ 1,539,294
Contractual Services	\$10,482,573	\$ 9,921,998
Supplies and Materials	\$ 8,700,385	\$ 6,112,889
Grants & Subsidies	\$ 4,262,677	\$ 3,639,021
Other	\$ 104,401	\$ 119,694
Depreciation	<u>\$ 4,239,911</u>	<u>\$ 4,243,658</u>
Total Operating Expenses	\$71,010,489	\$64,964,649

Operating expenses increased by \$6 million over the last year. Increases included \$2.3 million for salaries and benefits; \$2.6 million in capital outlay for tablet computers for students, furniture leased for new residence hall, research lab equipment and non-capital building improvements; \$561 thousand increase in contractual services and \$624 thousand in financial aid to students.

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

FY17 Operating Expenses by Functional Classification



Operating expenditures by functional classification remained relatively stable, as compared to FY16. The only change, noteworthy, was a 3 percent decrease in the instructional category. 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, 2017 and 2016 is as follows:

Condensed Statement of Cash Flows

	<u>30-Jun-2017</u>	<u>30-Jun-2016</u>
Cash Provided/Used by:		
Operating Activities	\$(15,024,743)	\$ (9,757,354)
Non-Capital Financing Activities	\$ 19,582,422	\$ 19,532,166
Capital Related Financing Activities	\$ (3,043,700)	\$ (3,887,154)
Investing Activities	\$ 126,508	\$ 136,855
	<hr/>	<hr/>
Net increase (decrease) in cash	\$ 1,640,487	\$ 6,024,513
	<hr/>	<hr/>
Cash - Beginning of year	\$ 11,373,773	\$ 5,349,260
Cash - End of year	<u>\$ 13,014,260</u>	<u>\$ 11,373,773</u>

SD Mines experienced a cash increase of approximately \$1.6 million compared to the end of last fiscal year 2016. This was largely a result of non-capital financing activities in excess of \$19.5 million, which includes General Fund appropriations, offset by \$15 million in cash used by operating activities and \$3 million in cash used in capital related financing activities.

Economic Factors Impacting the Future

The University maintains a positive outlook for fiscal year 2017 and beyond. Strategic planning, focused on increasing enrollment, and research awards and Foundation support 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 12.7%, since Fall 2012. The trend is expected to continue at a slower pace. SD Mines will continue to 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 FY18, it is expected that the State General Fund appropriations will be impacted by economic pressures. These pressures will emphasize the need for the university to focus on fundraising both for scholarship dollars and infrastructure priorities. Potential limitations in State General Funding can impact the ability of SD Mines to attract and retain faculty and staff.

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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**Statement of Net Position**

June 30, 2017

	FY2017	FY2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 10,841,069.91	\$ 9,379,657.21
Accounts Receivable - Student Accounts (net of allowance FY17, \$336,366; FY16, \$263,474)	349,913.55	427,346.33
Accounts Receivable - Sales and Services	2,048,998.60	1,692,176.03
Notes Receivable	334,566.35	327,722.84
Interest Receivable	174,935.39	179,808.07
Inventories	395,758.72	537,079.72
Due from Federal	4,469,535.53	3,224,542.26
Due from Primary	15,526.76	48,299.84
Due from Component Units	459,705.11	602,249.89
Prepaid Expenses	-	-
Unamortized Cost of Bond Issuance	4,283.51	4,283.51
Total Current Assets	19,094,293.43	16,423,165.70
Non-Current Assets:		
Cash and Cash Equivalents	\$ 2,173,190.33	\$ 1,994,116.12
Notes Receivable	2,039,013.26	2,046,055.38
Unamortized Cost of Bond Issuance	68,536.25	72,819.76
Construction in Progress	2,630,350.59	4,629,618.49
Buildings and Building Improvements (net of accumulated depreciation FY17, \$29,958,713; FY16, \$27,994,330)	67,743,170.33	62,837,422.67
Land	61,342.83	61,342.83
Land Improvements (net of accumulated depreciation FY17, \$2,491,584; FY16, \$2,288,696)	2,883,532.44	2,741,906.46
Infrastructure (net of accumulated depreciation FY17, \$3,622,590; FY16, \$3,370,274)	4,650,154.87	4,812,852.02
Equipment and Other Property (net of accumulated depreciation FY17, \$31,807,812; FY16, \$28,101,412)	7,321,915.74	7,761,740.60
Total Noncurrent Assets	89,571,206.64	86,957,874.33
TOTAL ASSETS	\$ 108,665,500.07	\$ 103,381,040.03
Deferred Outflows of Resources		
Loss on Debt Refunding	\$ 56,918.77	\$ 60,513.64
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 108,722,418.84	\$ 103,441,553.67
LIABILITIES		
Current Liabilities:		
Accounts Payable	631,374.01	672,763.60
Accrued Wages & Benefits	858,277.69	904,474.10
Accrued Interest Payable	298,297.51	308,720.32
Compensated Absences Payable	886,951.22	1,071,138.69
Bonds Payable	1,037,889.05	997,889.05
Obligations under Capital Leases	1,352,289.33	708,649.86
Unearned Revenues	879,495.37	1,530,797.05
Due to Primary Government	45,645.07	41,300.24
Due to Other Component Units	643,815.84	1,830,590.54
Funds Held for Others	81,978.95	80,491.91
Student Deposits	132,585.87	124,474.16
Other Accrued Liabilities	60,735.47	66,890.05
Total Current Liabilities	6,909,335.38	8,338,179.57
Non-Current Liabilities:		
Compensated Absences Payable	2,430,245.40	2,451,858.76
Bonds Payable	23,064,692.40	24,102,581.45
Obligations under Capital Leases	2,588,938.04	1,484,903.18
Federal Capital Contribution Advance for Student Loans	1,511,583.00	1,511,583.00
Total Noncurrent Liabilities	29,595,458.84	29,550,926.39
TOTAL LIABILITIES	\$ 36,504,794.22	\$ 37,889,105.96
NET POSITION		
Invested in capital, net of related debt	\$ 60,818,473.44	\$ 57,623,192.28
Restricted, Nonexpendable:		
Loans	965,031.12	928,600.82
Restricted, Expendable:		
Debt Service	2,173,190.33	1,594,364.35
Unrestricted	8,260,929.73	5,406,290.26
TOTAL NET POSITION	\$ 72,217,624.62	\$ 65,552,447.71

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

ASSETS	2017	2016
Cash and Cash Equivalents (Note 2)	\$ 2,359,637	\$ 3,480,770
Investments (Notes 2, 6, and 7)	69,073,090	58,796,762
Unconditional Promises to Give, Net (Note 3)	4,666,633	5,418,850
Lease Receivable (Notes 4 and 8)	344,128	359,695
Rental Real Estate, Net (Notes 5, 6, and 8)	13,390,749	12,494,426
Other Assets (Notes 6 and 7)	1,227,401	2,984,189
TOTAL ASSETS	\$ 91,061,638	\$ 83,534,692
LIABILITIES AND NET ASSETS		
Accounts Payable, Accrued Support, and Other (Note 7)	\$ 792,310	\$ 1,091,779
Construction Payable (Note 5)	-	1,055,891
Promise to Give to Others	208,206	467,522
Liability Under Charitable Remainder Trusts (Note 6)	3,347,209	3,386,761
Liability Under Charitable Gift Annuities (Note 7)	743,795	738,115
Notes Payable (Note 8)	10,055,425	7,873,620
Total Liabilities	15,146,945	14,613,688
Net Assets		
Unrestricted	1,317,644	1,129,118
Temporarily Restricted (Notes 9 and 11)	19,310,000	18,736,822
Permanently Restricted (Notes 10 and 11)	55,287,049	49,055,064
Total Net Assets	75,914,693	68,921,004
TOTAL LIABILITIES AND NET ASSETS	\$ 91,061,638	\$ 83,534,692

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, 2017**

	FY2017	FY2016
Operating Revenues		
Tuition & Fees:		
State Support Tuition Allocation (net of scholarship allowances FY17, \$2,976,349; FY16, \$1,755,837)	\$ 14,276,210.59	\$ 8,615,268.65
Self Support Tuition (net of scholarship allowances FY17, \$184,603; FY16, \$165,819)	886,224.69	762,366.89
Student Fees (net of scholarship allowances FY17, \$1,203,452; FY16, \$2,297,763)	9,026,668.41	14,234,783.29
Auxiliary Sales & Services (net of scholarship allowances FY17, \$1,343,318; FY16, \$1,337,613)	7,440,390.17	7,200,256.39
General Sales & Services	1,614,418.27	1,334,520.09
Federal Grants & Contracts	11,587,704.71	11,100,526.85
State Grants & Contracts	2,782,028.02	2,786,054.80
Private Grants & Contracts	7,437,965.97	5,726,275.00
Student Loan Interest	39,790.02	34,534.55
Total Operating Revenues	<u>55,091,400.85</u>	<u>51,794,586.51</u>
Operating Expenses		
Personal Services	41,638,412.07	39,388,095.20
Travel	1,582,130.20	1,539,294.33
Contractual	10,482,572.73	9,921,997.53
Supplies and Materials	8,700,384.85	6,112,889.26
Grants & Subsidies	4,262,676.50	3,639,020.69
Other	104,401.33	119,693.27
Depreciation	4,239,911.47	4,243,658.42
Total Operating Expenses	<u>71,010,489.15</u>	<u>64,964,648.70</u>
Operating Loss	<u>(15,919,088.30)</u>	<u>(13,170,062.19)</u>
Nonoperating Revenues (Expenses)		
General Fund Appropriations	16,756,336.29	16,414,051.51
School & Public Lands	133,022.00	133,022.00
Higher Education Facilities Fund	486,059.17	621,282.02
Investment Income	111,232.99	126,718.03
PELL Grants	2,207,004.80	2,363,810.67
Interest on capital asset, related debt	(1,330,645.62)	(1,361,550.29)
Bond Issuance & Related Costs	(4,283.51)	(4,283.51)
Loss on Disposal of Assets	(13,758.44)	(716,712.72)
Net Nonoperating Revenues	<u>18,344,967.68</u>	<u>17,576,337.71</u>
Income Before Other Revenues, Expenses, Gains, or Losses	2,425,879.38	4,406,275.52
SD Building Authority Bond Proceeds	2,487,017.59	4,472,306.07
HEFF	1,219,418.55	1,214,007.59
Capital Grants & Contracts	366,065.04	729,544.64
BAB Subsidy	166,796.35	171,415.73
Change in Net Position	<u>6,665,176.91</u>	<u>10,993,549.55</u>
Net Position - Beginning of the year	65,552,447.71	54,558,898.16
Adjustment to beginning balance	-	-
Net Position - Beginning of year	<u>65,552,447.71</u>	<u>54,558,898.16</u>
Net Position - End of year	<u>\$ 72,217,624.62</u>	<u>\$ 65,552,447.71</u>

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, 2017, WITH COMPARATIVE TOTALS FOR 2016**

	----- 2017 -----			TOTAL	2016 TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED		
Support, Gains, and Revenues					
Contributions	\$ 538,173	\$ 2,756,393	\$ 2,026,902	\$ 5,321,468	\$ 7,205,882
In-Kind Contributions (Note 1)	2,090	65,732	-	67,822	173,841,227
Wills and Bequests	35,000	22,962	262,309	320,271	209,962
Investment Income (Loss), Including Net Realized and Unrealized Gain (Loss) and Rental Real Estate (Net of Fees and Expenses of \$586,622 and \$523,288 for the Years Ended June 30, 2017 and 2016, Respectively)	1,197,641	1,673,239	3,539,085	6,409,965	(1,472,842)
Unrealized Gain (Loss) on Trust and Annuity Interests	-	240,055	403,689	643,744	(139,443)
Other Income	254,058	249,217	-	503,275	725,825
Net Assets Released from Restrictions (Note 9)	4,434,420	(4,434,420)	-	-	-
Total Support, Gains, and Revenues	6,461,382	573,178	6,231,985	13,266,545	180,370,611
Expenses					
<i>Program Services (Note 9)</i>					
Scholarships and Fellowships	2,796,154	-	-	2,796,154	2,423,107
General Student Assistance	343,920	-	-	343,920	335,047
General In-Kind Support to SDSM&T (Note 1)	67,822	-	-	67,822	173,841,227
General Support to SDSM&T	1,228,677	-	-	1,228,677	1,452,851
Total Program Services	4,436,573	-	-	4,436,573	178,052,232
<i>Supporting Services:</i>					
Fundraising	1,030,329	-	-	1,030,329	1,063,221
Administrative	805,954	-	-	805,954	771,328
Total Supporting Services	1,836,283	-	-	1,836,283	1,834,549
Total Expenses	6,272,856	-	-	6,272,856	179,886,781
Change in Net Assets	188,526	573,178	6,231,985	6,993,689	483,830
Net Assets -- Beginning of Year	1,129,118	18,736,822	49,055,064	68,921,004	68,437,174
Net Assets -- End of Year	\$ 1,317,644	\$ 19,310,000	\$ 55,287,049	\$ 75,914,693	\$ 68,921,004

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**Statement of Cash Flows**

June 30, 2017

	FY2017	FY2016
Cash Flows from Operating Activities		
Tuition & Fees	\$ 24,206,660.16	\$ 23,396,432.92
Grants and Contracts	19,760,736.74	20,262,036.26
Auxiliary Sales & Services	7,441,160.43	7,199,962.51
General Sales & Services	1,551,689.57	1,164,756.48
Other Revenue	26,001.30	34,157.99
Loans issued to students	(369,497.61)	(361,813.49)
Loans collected from students	339,053.90	324,998.37
Personal Services	(41,890,409.32)	(39,300,258.45)
Travel	(1,577,785.37)	(1,549,658.60)
Contractual	(11,690,193.07)	(11,204,979.93)
Supplies and noncapitalized equipment	(8,559,063.85)	(6,081,523.73)
Grants & Subsidies	(4,262,676.50)	(3,639,020.69)
Other Expenses	(419.53)	(2,443.35)
Net cash provided (used) by operating activities	<u>(15,024,743.15)</u>	<u>(9,757,353.71)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	16,889,358.29	16,547,073.51
Higher Education Facilities Fund	486,059.17	621,282.02
PELL Grants	2,207,004.80	2,363,810.67
Direct and PLUS Loan Receipts	12,777,942.00	13,120,469.00
Direct and PLUS Loan Disbursements	(12,777,942.00)	(13,120,469.00)
Net cash flows provided by noncapital financing activities	<u>19,582,422.26</u>	<u>19,532,166.20</u>
Cash Flows from Capital and Related Financing Activities		
State Building Authority	2,487,017.59	4,472,306.07
Capital Grants & Contracts	366,065.04	729,544.64
Higher Education Facilities Fund	1,219,418.55	1,214,007.59
Build America Bond Subsidy	166,796.35	171,415.73
Revenue Bond Discounts/Premiums & related costs	(54,294.18)	(54,294.18)
Proceeds from Capital Debt	2,653,507.94	1,444,150.00
Principal Paid on Capital Related Debt	(1,845,833.61)	(2,217,232.17)
Interest Paid on Capital Related Debt	(1,341,068.43)	(1,370,767.17)
Purchase of capital assets	(6,695,309.84)	(8,276,284.96)
Net cash used by capital and related financing activities	<u>(3,043,700.59)</u>	<u>(3,887,154.45)</u>
Cash Flows from Investing Activities		
Investment Income	<u>126,508.39</u>	<u>136,855.03</u>
Net increase in cash	1,640,486.91	6,024,513.07
Cash and Cash Equivalents - Beginning of year	11,373,773.33	5,349,260.26
Cash and Cash Equivalents - End of year	<u>\$ 13,014,260.24</u>	<u>\$ 11,373,773.33</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating Loss	\$ (15,919,088.30)	\$ (13,170,062.19)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,239,911.47	4,243,658.42
Change in assets and liabilities:		
Prepaid Expenses	-	-
Receivables, net	(1,359,269.31)	(73,406.73)
Inventories	141,321.00	31,365.53
Deferred Revenue	(651,301.68)	452,864.93
Payables, net	(1,476,316.33)	(1,241,773.67)
Net Cash Used by Operating Activities	<u>\$ (15,024,743.15)</u>	<u>\$ (9,757,353.71)</u>
Noncash Transactions		
Loss on Disposal of Capital Assets	\$ (38,758.44)	\$ (716,712.72)
Loan Cancellation Expense	\$ (4,953.06)	\$ (2,790.01)

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Revenue Collected:		
Other Revenue - Contributions	\$ 6,137,341	\$ 4,386,918
Payments for Expenses:		
Personal Services	(1,178,475)	(1,223,562)
Travel	(481,868)	(495,322)
Contractual	(300,112)	(189,621)
Supplies and Materials	(1,077,936)	(1,294,247)
Grants and Subsidies	(3,639,146)	(3,163,268)
Interest Paid	(295,879)	(32,643)
Net Cash Flows Used in Operating Activities	(836,075)	(2,011,745)
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	45,625,877	23,291,122
Purchases of Investments	(48,341,351)	(21,282,487)
Repayments of Notes and Leases Receivable	15,567	13,651
Purchase of Land	(45,793)	-
Net Cash Flows Provided by (Used in) Investing Activities	(2,745,700)	2,022,286
Cash Flows from Financing Activities		
Contributions Restricted for Endowment Purposes	2,520,915	1,333,876
Payments on Notes Payable	(14,759)	(14,017)
Decrease in Other Liabilities	(45,514)	(250,805)
Net Cash Flows Provided by Financing Activities	2,460,642	1,069,054
Net Change in Cash and Cash Equivalents	(1,121,133)	1,079,595
Cash and Cash Equivalents -- Beginning of Year	3,480,770	2,401,175
Cash and Cash Equivalents -- End of Year	\$ 2,359,637	\$ 3,480,770
Reconciliation of Increase in Net Assets to Net Cash Flows Used in Operating Activities		
Increase in Net Assets	\$ 6,993,689	\$ 483,830
<i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Used in Operating Activities:</i>		
Depreciation	269,729	107,491
Net Realized and Unrealized (Gain) Loss on Investments, Property, Trust and Annuity Interests	(7,599,695)	1,490,178
Contributions Restricted for Endowment Purposes	(2,289,211)	(1,316,867)
Change in Receivables and Pledges Other Than Endowments	2,283,624	(2,437,884)
Change in Payables	(234,895)	(167,374)
Change in Promise to Give to Others	(259,316)	(171,119)
Net Cash Flows Used in Operating Activities	(836,075)	(2,011,745)
Supplemental Schedule of Non-cash Investing and Financing Activities		
Rental Real Estate Purchased with Long-Term Debt (Note 5)	\$ 2,196,564	\$ 6,803,436
Construction in Progress Purchased with		
Accounts Payable (Note 5)	-	1,055,891
Loss on Disposition of Rental Real Estate	-	381,317
Accounts Payable converted to Long-Term Debt (Note 5)	1,055,891	-

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, 2017, the Foundation distributed \$4,366,598 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, 2017 were \$686,280 with an allowance for uncollectible accounts of \$336,366 and a net student receivable of \$349,914. 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 and only a small amount in FY17, so an adjustment to the allowance amount for write offs for these fiscal years was not made or was very minimal, 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 \$1,594,875, as of June 30, 2017. This includes a receivable of \$1,007,832 due from the City of Rapid City, dedicated to the Stadium track and turf replacement. 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, 2017. 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, 2017 is as follows:

Footnote IX Capital Asset Disclosure

	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 61,342.83	\$ -	\$ -	\$ 61,342.83
Land Improvements	\$ 5,030,602.00	\$ 344,514.21	\$ -	\$ 5,375,116.21
Infrastructure	\$ 8,183,125.86	\$ 89,619.00	\$ -	\$ 8,272,744.86
Buildings	\$ 90,831,752.50	\$ 6,870,131.25	\$ -	\$ 97,701,883.75
Equipment & other property	\$ 35,797,327.68	\$ 1,406,513.29	\$ (292,257.71)	\$ 36,911,583.26
Library materials	\$ 2,131,580.93	\$ 12,743.77	\$ 73,820.15	\$ 2,218,144.85
Total	\$ 142,035,731.80	\$ 8,723,521.52	\$ (218,437.56)	\$ 150,540,815.76
Less accumulated depreciation:				
Land Improvements	\$ 2,288,695.54	\$ 202,888.23	\$ -	\$ 2,491,583.77
Infrastructure	\$ 3,370,273.84	\$ 252,316.15	\$ -	\$ 3,622,589.99
Buildings	\$ 27,994,329.83	\$ 1,964,383.58	\$ -	\$ 29,958,713.41
Equipment & other property	\$ 28,101,411.51	\$ 1,803,755.36	\$ (253,499.27)	\$ 29,651,667.60
Library materials	\$ 2,065,756.50	\$ 16,568.14	\$ 73,820.15	\$ 2,156,144.79
Total	\$ 63,820,467.22	\$ 4,239,911.46	\$ (179,679.12)	\$ 67,880,699.56
Capital Assets, net	\$ 78,215,264.58	\$ 4,483,610.06	\$ (38,758.44)	\$ 82,660,116.20

K. Museum Collection:

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

L. Intangible Assets:

During fiscal year 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. There were no new in-kind software contributions during fiscal year 2017.

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, 2017 were \$1,714,458.

IV. STATE APPROPRIATIONS

The General fund appropriation amount on the financials is reflective of the amount spent during the fiscal year. FY17 budget carried over and spent in FY18 will be reflected in the FY18 appropriation. There were no funds carried over from FY17 into FY18. The State General Fund appropriation for FY17 was \$16,756,336, which includes \$70,243 carried over from FY16. SDSM&T reverted unspent funds, in the amount of \$1, back to the General fund.

V. TUITION AND HEFF

SDSM&T received tuition revenue in the amount of \$19,773,906, during fiscal year 2017. Of this amount, \$2,395,723 was remitted to the Board of Regents and deposited into the Higher Education Facilities Fund (HEFF). An additional \$125,623 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 FY17. SDSM&T spent \$1,069,301 from the HEFF pool and an additional \$636,176 was spent from the Board of Regents General Fund appropriation for facility M&R. Both amounts are reported as HEFF.

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 7/1/2016	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Revenue Bonds, Payable					
Series 2008B	\$3,000,000.00	\$0.00	(\$195,000.00)	\$2,805,000.00	\$205,000.00
Series 2009	\$8,690,000.00	\$0.00	(\$345,000.00)	\$8,345,000.00	\$360,000.00
Series 2014A	\$6,505,000.00	\$0.00	(\$165,000.00)	\$6,340,000.00	\$170,000.00
Series 2014B	\$5,890,000.00	\$0.00	(\$235,000.00)	\$5,655,000.00	\$245,000.00
Lease Obligations	\$2,193,553.04	\$2,653,507.94	(\$905,833.61)	\$3,941,227.37	\$1,352,289.33
Total Long-Term Debt	\$26,278,553.04	\$2,653,507.94	(\$1,845,833.61)	\$27,086,227.37	\$2,332,289.33
Compensated Absences	\$3,522,997.43	\$1,062,812.24	(\$1,268,613.06)	\$3,317,196.61	\$886,951.25
Federal Portion of Loan Programs	\$1,511,583.00	\$0.00	\$0.00	\$1,511,583.00	\$0.00
Total Long-Term Debt & Obligations	\$31,313,133.47	\$3,716,320.18	(\$3,114,446.67)	\$31,915,006.98	\$3,219,240.58

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 FY17 is \$2,927,362.51

Revenue bond payables, as of June 30, 2017, 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:

	Total Bonds Payable	Short Term Portion	Long Term Portion
Bonds Payable	\$23,145,000	\$980,000	\$22,165,000
Premium	\$975,103	\$58,920	\$916,184
Original Issue Discount	(\$17,522)	(\$1,031)	(\$16,491)
Per Statement of Net Position	\$24,102,581	\$1,037,889	\$23,064,692

Long-Term Leases, Payable includes the lease of the President's house, owned by the Foundation, in the amount of \$369,412, leases for tablet computers purchased for our students, in the amount of \$3,167,033, and a lease for residence hall furniture in the amount of \$404,782. SDSM&T entered into three new lease agreements, in FY17, two for tablet computers, payable over 4 years, in the amount of \$2,158,905 and the new lease for residence hall furniture, payable over 5 years, in the amount of \$494,603.

The annual requirements to amortize all long-term leases outstanding, as of June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
FY2018	\$1,352,289.33	\$168,812.18	\$1,521,101.51
FY2019	\$1,367,466.29	\$92,319.52	\$1,459,785.81
FY2020	\$657,295.94	\$46,270.06	\$703,566.00
FY2021	\$564,175.81	\$19,064.02	\$583,239.83
FY2022-2026	\$0.00	\$0.00	\$0.00

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, 2017 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 leases for copiers, student housing, and buildings and land used for educational, research, and administrative purposes. During FY17, SDSM&T renewed leases for copiers and office, lab and instructional space. The university is currently leasing three buildings for student housing. A lease with Technology Housing, LLC was entered Jan. 2014 to lease two apartment complexes for a period of 10 years. The total remaining on this lease is \$9,088,000. Another lease agreement for student housing was entered August 2016, with the SDSM&T Foundation, for a newly constructed residence hall, with a 30-year term. The amount remaining on this lease is \$32,242,030. There are discussions underway about the possibility of purchasing this building from the Foundation. Lease payments are reported as operating expense. A summary of changes in operating leases follows:

<u>Balance</u> <u>7/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2017</u>
<u>\$10,693,230</u>	<u>\$33,103,280</u>	<u>\$(2,203,118)</u>	<u>\$41,593,392</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,	
2018	\$ 2,257,512
2019	\$ 2,177,462
2020	\$ 2,122,246
2021	\$ 2,141,322
2022	\$ 2,160,271
Thereafter	\$ 30,734,580

X. FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other Expense	Depreciation	Total
Instruction	\$19,236,682	\$436,870	\$464,016	\$787,946	\$2,080	\$3	\$1,077,171	\$22,004,767
Research	\$7,408,075	\$379,118	\$557,703	\$1,001,076	\$2,035,617	\$15	\$1,427,294	\$12,808,899
Public Service	\$302,609	\$9,557	\$0	\$9,794	\$3,827	\$0	\$23,876	\$349,664
Academic Support	\$2,945,360	\$46,174	\$769,576	\$2,629,885	\$1,800	\$0	\$227,280	\$6,620,075
Student Services	\$4,258,675	\$585,259	\$548,776	\$473,997	\$947	\$401	\$394,552	\$6,262,608
Institutional Support	\$3,912,248	\$88,707	\$709,642	\$701,184	\$0	\$79,093	\$102,226	\$5,593,101
O&M of Plant	\$2,511,361	\$30,131	\$1,235,530	\$1,901,352	\$0	\$0	\$604,429	\$6,282,802
Scholarships and Fellowships	\$0	\$0	\$0	\$0	\$2,218,406	\$24,888	\$0	\$2,243,294
Auxiliary Enterprises	\$1,063,401	\$6,313	\$6,245,663	\$1,146,818	\$0	\$0	\$383,083	\$8,845,279
Total	\$41,638,412	\$1,582,130	\$10,530,905	\$8,652,053	\$4,262,677	\$104,401	\$4,239,911	\$71,010,489

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

(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 securities at the end of each accounting period. Investment expense of **\$100,971** and \$145,347 is netted against the investment income for the years ended June 30, 2017 and 2016, 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.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(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, 2017 and 2016. 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 **\$67,822** and **\$173,841,227** for the years ended June 30, 2017 and 2016, 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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(1) Summary of Significant Accounting Policies (Continued)

Federal Income Tax

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been determined by the Internal Revenue Service to be a “public foundation” (rather than a “private foundation” within the meaning of Section 509(a) of the Code).

At June 30, 2017, 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.

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, 2017, based on anticipated proceeds. Management anticipates no impairment losses.

Subsequent Events

The Foundation has evaluated significant subsequent events through September 25, 2017, 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, 2017 AND 2016

(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.

(2) Investments

Investments consist of the following investment types at June 30:

	2017		2016	
	Fair Market Value	Cost	Fair Market Value	Cost
Money Market Funds included in Cash and Cash Equivalents	\$ 1,651,062	\$ 1,651,062	\$ 2,934,775	\$ 2,934,775
Government Securities/Corporate Bonds/CDs	4,906,111	4,875,057	2,212,096	2,138,119
Bond Funds	16,819,560	16,859,403	11,509,008	11,532,728
Stocks	989,489	779,702	8,136,387	7,690,273
Stock Funds	37,703,345	33,793,960	24,504,770	24,041,493
Alternatives	4,400,630	3,413,947	8,379,621	6,795,643
Real Estate Funds	4,253,955	2,214,709	4,054,880	2,198,678
Total Investments	69,073,090	61,936,778	58,796,762	54,396,934
	\$ 70,724,152	\$ 63,587,840	\$ 61,731,537	\$ 57,331,709

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(2) Investments (Continued)

The fair values of debt securities and certificates of deposit at June 30, 2017 and 2016, by contractual maturity, are shown below:

	<u>2017</u>	<u>2016</u>
Due in one year or less	\$ 4,240,000	\$ 1,500,000
Due after one year through five years	661,964	708,856
Due after five years through ten years	-	-
Due after ten years	4,147	3,240
	<u>\$ 4,906,111</u>	<u>\$ 2,212,096</u>

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, 2017 and 2016, 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, 2017	<u>Level One</u>	<u>Level Two</u>	<u>Level Three</u>	<u>NAV per Share</u>	<u>Total</u>
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
	<u>\$ 57,380,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,343,848</u>	<u>\$ 70,724,152</u>

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(2) Investments (Continued)

June 30, 2016	Level One	Level Two	Level Three	NAV per Share	Total
Money Market Funds included in					
Cash and Cash Equivalents	\$ 2,934,775	\$ -	\$ -	\$ -	\$ 2,934,775
Gov Sec/Corp Bonds/CDs	-	-	-	2,212,096	2,212,096
Bond Funds	11,509,008	-	-	-	11,509,008
Low-Correlated Hedge Funds	-	-	-	5,118,508	5,118,508
Illiquid Credit	-	-	-	1,279,651	1,279,651
Private Equity	-	-	-	1,981,462	1,981,462
Real Estate Funds	208,676	-	-	3,846,204	4,054,880
Large-Cap Equity Funds	10,565,625	-	-	-	10,565,625
Small/Mid-Cap Equity Funds	4,341,430	-	-	-	4,341,430
International Equity Funds	8,359,816	-	-	-	8,359,816
Balanced Mutual Funds	1,237,899	-	-	-	1,237,899
Large-Cap Stock	4,091,014	-	-	-	4,091,014
Mid/Small-Cap Stock	1,218,819	-	-	-	1,218,819
International Stock	2,826,554	-	-	-	2,826,554
	\$ 47,293,616	\$ -	\$ -	\$ 14,437,921	\$ 61,731,537

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:

June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Gov Sec/Corp Bonds/CDs	\$ 4,906,111	\$ -	Daily	3 Days
Low-Correlated Hedge Funds	1,301,602	-	Qtr/Annual	61 to 100 Days
Illiquid Credit	1,005,658	887,372	**	N/A
Private Equity	2,093,370	1,044,518	*	N/A
Real Estate Funds	4,037,107	-	Quarterly	60 Days
	\$ 13,343,848	\$ 1,931,890		

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(2) Investments (Concluded)

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

* 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:

	2017	2016
Receivable in less than one year	\$ 1,578,662	\$ 1,954,796
Receivable in one to five years	2,019,875	4,285,202
Receivable in six years	1,989,725	-
	<u>5,588,262</u>	<u>6,239,998</u>
Less discounts to net present value	642,215	509,149
Less allowance for uncollectible promises	279,414	311,999
Net Promises to Give	<u>\$ 4,666,633</u>	<u>\$ 5,418,850</u>

(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, 2017 and 2016, is **\$344,128** and \$359,695, respectively. Income recognized on the lease was **\$18,181** and \$18,923 during the years ended June 30, 2017 and 2016, respectively.

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

2018	\$ 13,801
2019	15,918
2020	16,651
2021	17,486
2022	18,318
Thereafter	261,954
	<u>\$ 344,128</u>

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

(5) Rental Real Estate

Rental real estate consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land, at cost	\$ 1,857,189	\$ 1,857,189
Buildings, at cost	12,112,513	3,112,513
Real estate partnership interest, at cost	469,766	469,766
Construction in Progress	-	7,859,327
	<u>14,439,468</u>	<u>13,298,795</u>
Accumulated depreciation	<u>(1,048,719)</u>	<u>(804,369)</u>
Net Book Value	<u>\$ 13,390,749</u>	<u>\$ 12,494,426</u>

During the year ended June 30, 2016, the Foundation entered into a development agreement for the construction of a six-story building for student housing. Construction of the student housing building was completed during the year ended June 30, 2017 and is 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. As of June 30, 2017, both the property and related note payable are included in the Statement of Financial Position in the amount of \$9,000,000. The \$1,055,891 of accounts payable at June 30, 2016 was financed through the note payable during the year ended June 30, 2017.

Included in buildings at June 30, 2017 is approximately \$88,000 of interest that has been capitalized as part of construction.

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:

Year ending June 30,

2018	\$ 995,400
2019	971,200
2020	842,200
2021	861,300
2022	880,300
	<u>\$ 4,550,400</u>

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(6) Charitable Remainder Trusts

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

	2017			2016		
	Market Value	Recorded Net Asset Value	Liability Under Trusts	Market Value	Recorded Net Asset Value	Liability Under Trusts
Charitable Unitrusts	\$ 6,510,798	\$ 3,832,034	\$ 2,678,764	\$ 6,020,037	\$ 3,302,839	\$ 2,717,198
Charitable Annuity Trusts	1,097,515	429,070	668,445	1,074,553	404,990	669,563
	\$ 7,608,313	\$ 4,261,104	\$ 3,347,209	\$ 7,094,590	\$ 3,707,829	\$ 3,386,761

During the year ended June 30, 2017, there were additional gifts to three existing trusts. The fair market value of the gifts was \$39,821 and the present value was \$14,618. There were no trust terminations. The Foundation is the remainderman for 95 percent of the market value listed above for each of the years ended June 30, 2017 and 2016.

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

	Market Value	
	2017	2016
Investments	\$ 7,379,627	\$ 6,865,885
Rental Real Estate	210,000	210,000
Other Assets	18,686	18,705
	\$ 7,608,313	\$ 7,094,590

(7) Liability under Charitable Gift Annuities

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

	2017	2016
Market Value	\$ 1,667,969	\$ 1,468,270
Recorded at Present Value	924,174	730,155
Liability Under Charitable Gift Annuities	\$ 743,795	\$ 738,115

During the year ended June 30, 2017, there were two additional annuities with a fair market value of \$114,815 and a present value of \$81,546. There were no annuity terminations. The Foundation is the remainderman for 100 percent of the market value listed above for each of the years ended June 30, 2017 and 2016.

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

	2017	2016
Investments	\$ 1,666,648	\$ 1,468,381
Other Assets	1,731	991
Accounts Payable	(410)	(1,102)
	\$ 1,667,969	\$ 1,468,270

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016**

(8) Notes Payable

Notes payable consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
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&T (see Note 4) (a).	\$ 369,425	\$ 384,184
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
Note payable to a bank, balance is due in one balloon payment including interest at 2.75 percent plus one-month LIBOR (1.23 percent at June 30, 2017) on October 1, 2017; secured by the constructed real estate, land and fixtures purchased (b).	9,000,000	6,803,436
	<u>10,055,425</u>	<u>7,873,620</u>
Current maturities of notes payable	9,013,802	701,016
	<u>\$ 1,041,623</u>	<u>\$ 7,172,604</u>

- (a) On August 28, 2017, the Foundation refinanced this mortgage note payable. The note is due in quarterly installments of \$8,221, including interest at 3.95 percent through July 31, 2022 when the remaining balance is due.

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

2018	\$ 9,013,802
2019	704,918
2020	19,651
2021	20,486
2022	21,318
Thereafter	275,250
	<u>\$ 10,055,425</u>

- (b) The Foundation is in the process of refinancing the \$9,000,000 note payable and is currently making interest only payments.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2017 AND 2016

(9) Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Scholarships and Fellowships	\$ 4,571,271	\$ 4,334,948
General Student Assistance	1,019,916	969,143
General Support to SDSM&T	11,013,126	10,206,530
Pledge Donations - Timing Restriction - Determined by Donor at Later Date	2,705,687	3,226,201
	<u>\$ 19,310,000</u>	<u>\$ 18,736,822</u>

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, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2017</u>	<u>2016</u>
<i>Purpose of Restriction Accomplished:</i>		
Scholarships and Fellowships	\$ 2,796,154	\$ 2,423,107
General Student Assistance	343,920	335,047
General Support to SDSM&T	1,226,524	1,451,776
In-Kind Contributions (Note 1)	67,822	173,841,227
	<u>\$ 4,434,420</u>	<u>\$ 178,051,157</u>

(10) Permanently Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Scholarships and Fellowships	\$ 34,341,608	\$ 29,944,155
General Student Assistance	1,926,030	1,587,750
General Support to SDSM&T	17,058,465	15,330,510
Pledge Donations	1,960,946	2,192,649
	<u>\$ 55,287,049</u>	<u>\$ 49,055,064</u>

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, 2017 AND 2016

(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, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ 3,896,966	\$ 49,055,064	\$ 52,952,030
Board-Designated Endowment Funds	-	733,114	-	733,114
Endowment Assets - June 30, 2016	-	4,630,080	49,055,064	53,685,144
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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2017 AND 2016**

(11) Endowed Net Assets (Continued)

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets - June 30, 2015	\$ -	\$ 4,294,190	\$ 50,997,556	\$ 55,291,746
Investment Income (Loss), Net of Fees	-	1,629,285	(3,233,645)	(1,604,360)
Unrealized Loss on Trusts/Annuities	-	-	(25,714)	(25,714)
Contributions	-	-	1,316,867	1,316,867
Appropriation for Expenditure	-	(1,293,395)	-	(1,293,395)
Endowment Assets - June 30, 2016	-	4,630,080	49,055,064	53,685,144
Investment Income, Net of Fees	-	1,673,239	3,539,085	5,212,324
Unrealized Gain on Trusts/Annuities	-	-	403,689	403,689
Contributions	-	-	2,289,211	2,289,211
Appropriation for Expenditure	-	(1,191,756)	-	(1,191,756)
Endowment Assets - June 30, 2017	\$ -	\$ 5,111,563	\$ 55,287,049	\$ 60,398,612

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 2017 and 2016 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 2017 and 2016, the annual allocation of earnings includes a four percent payout totaling **\$1,890,607** and \$1,813,377, respectively, for the endowments' purpose.