



SOUTH DAKOTA MINESTM

An engineering, science and technology university

Financial Report



For the year ended June 30, 2020



February 19, 2021

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

Dear Dr. Maher:

I am pleased to enclose the Annual Financial Report for the South Dakota School of Mines and Technology for fiscal year 2020. This report covers all phases of the financial transactions of the university for the twelve-month period ending June 30, 2020.

Sincerely,

James M. Rankin
President

Enclosure



February 19, 2021

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, 2020 is complete and submitted in the attached exhibits.

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

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

Sincerely,

Bill Spindle
Vice President, Finance and Administration

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

For the Year Ended June 30, 2020

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SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

Rapid City, South Dakota

FINANCIAL REPORT

For the Year Ended June 30, 2020

REGENTS OF EDUCATION

John W. Bastian, President, Belle Fourche

Jim Morgan, Vice President, Brookings

Pam Roberts, Secretary, Pierre

Brock Brown, Lake Norden

Kevin Schieffer, Sioux Falls

Jim Morgan, Secretary, Brookings

Randy Schaefer, Madison

Joan Wink, Howes

Jim Thares, Aberdeen

Barb Stork, Dakota Dunes

Office of the Board of Regents

Dr. Brian Maher, Executive Director & CEO

Heather Forney, System Vice President for Finance and Administration

South Dakota School of Mines and Technology

Executive Administration

Dr. James Rankin, President

Dr. Lance Roberts, Provost and Vice President for Academic Affairs

Dr. William Spindle, Vice President for Finance and Administration

Dr. Patricia Mahon, Vice President for Student Development and Dean of Students

Dr. Ralph Davis, Vice President for Research

Sharon Chontos, Interim President, SDSM&T Foundation

Office of Finance and Administration

Debra Rowse, Controller

South Dakota School of Mines & Technology Organizational Chart



South Dakota Board of Regents

Jim Rankin, President

Lance Roberts
Interim Provost & VP
for Academic Affairs

Patricia Mahon
Dean of Students & VP
for Student Development

Joel Lueken
Director of
Athletics

Ann Brentlinger
Director of Marketing
& Communications

Jerilyn Roberts
Director of Facilities &
Risk Management

Bill Spindle
VP for Finance &
Administration

Ralph Davis
VP for
Research

Kate Alley
Associate Provost
Academic Affairs

Bryce Nussbaum
Asst. Director of Residence
Life & Community Standards

Mike Ray
Communications
Manager

Jade Herman
Director of Planning &
Events

Kelsey O'Neill
Associate VP of
Human Resources

Joseph Wright
Associate VP for
Research & Economic
Development

Molly Moore
Associate Provost
Academic Admin.

Katie Wahls
Asst. Director of Residence
Life Housing & Operations

Larry Simonson
Assistant to President,
Alumni Ambassador

Directors

- Marlin Kinzer, Bookstore
- Anne Langdell, Director of Financial Planning & Budget Development
- Bryan Schumacher, ITS
- Barb Mustard, Business Services
- Deb Rowse, Interim Controller

Research Center Directors‡

- Grant Crawford, AMP, R3S & SERC
- Steve Smith, BioSNTR
- David Salem, CAPE
- Robb Winter, CBERD
- Michael West, CFSP
- Karim Mucd, ECML
- Edward Duke, EMES, NASA-EPSCoR, & SDSGC
- Jon Kellar, SPACT

Directors

- Vacant, Admissions
- David Martin, Financial Aid
- Diana Eastman, Registrar

Directors

- Duane Kavanaugh, Counseling & ADA
- Suzi Aadland, Ivanhoe International Center
- Jesse Herrera, Center for Inclusion
- Stephanie Lindsley, Surbeck Center
- Cory Headley, Student Leadership, Involvement, & Community Engagement
- Matt Hanley, Career & Professional Development Center
- Derek Flom, Veterans Resource Center
- Amanda Lopez, Title IX & Disability Services

Sharon Chontos*
Interim CARA
Advancement
President

‡ Arbegast 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)

Jennifer Hauf
Aramark Dining
Services

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

Michelle Lineweber
Director of Academic
Affairs Operations

Maribeth Price
Dean of
Graduate Education

Lisa Carlson
Director of
Student Success Center

- Freshmen/Sophomore Advisor
- Pre-Health Advisor
- Tutoring & Testing
- WISE Program

Directors

- Ryan Koontz, CAMP Associate Director
- Kim Osberg, CAMP Associate Director
- Patricia Andersen, Library
- Jeff Langemeier, Institutional Research
- Laurie Anderson, Museum of Geology

Bill Cross
Faculty Senate Chair

Department Heads & Program Directors/Coordinators

William Capehart, Director of Atmospheric & Environmental Sciences
Kenneth Benjamin, Interim Head of Chemical & Biological Engineering
Robb Winter, Coordinator of Biomedical Engineering
Zhengtao Zhu, Interim Head of Chemistry, Biology & Health Sciences
James Stone, Head of Civil & Environmental Engineering
Jeff McGough, Head of Computer Science & Engineering
Tom Montoya, Interim Head of Electrical Engineering
Laurie Anderson, Head of Geology & Geological Engineering
Allison Gilmore, Head of Humanities & Social Science
Jeff Woldstad, Head of Industrial Engineering

Jon Kellar, Director of Materials Engineering & Science
Michael West, Head of Materials & Metallurgical Engineering
Travis Kowalski, Interim Head of Mathematics
Pierre Larochelle, Head of Mechanical Engineering
Richard Mendenhall, Chair of Military Sciences
Robert Hall, Head of Mining Engineering and Management
Steve Smith, Director of Nanoscience & Nanoengineering
Michael Vander Heyden, Coordinator of Physical Education
Richard Schnee, Head of Physics

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, 2020, along with comparative data for the fiscal year ended June 30, 2019.

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, 2020. 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-2020</u> | <u>30-Jun-2019</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | \$ 23,496,567 | \$ 22,589,871 |
| Noncurrent assets | \$ 98,097,961 | \$ 98,671,131 |
| Deferred outflow of resources | <u>\$ 549,333</u> | <u>\$ 589,304</u> |
| Total assets and deferred outflows | <u>\$122,143,861</u> | <u>\$121,850,306</u> |
| LIABILITIES | | |
| Current liabilities | \$ 8,438,938 | \$ 7,735,771 |
| Noncurrent liabilities | <u>\$ 34,517,796</u> | <u>\$ 36,305,133</u> |
| Total liabilities | <u>\$ 42,956,734</u> | <u>\$ 44,040,904</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | \$ 62,921,626 | \$ 61,692,783 |
| Restricted | \$ 6,167,969 | \$ 5,987,890 |
| Unrestricted | <u>\$ 10,097,532</u> | <u>\$ 10,128,729</u> |
| Total Net Position | <u>\$ 79,187,127</u> | <u>\$ 77,809,402</u> |

- Total net position increased by 2% compared to FY20, mainly due to a decrease in liabilities of \$1.7 million from bond liability reduction and repayment of Perkins Loan Federal Contribution.
- SD Mines' largest asset is its investment in physical plant, representing \$94.5 million of noncurrent assets.
- SD Mines' largest liability is revenue bonds payable of \$30 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.

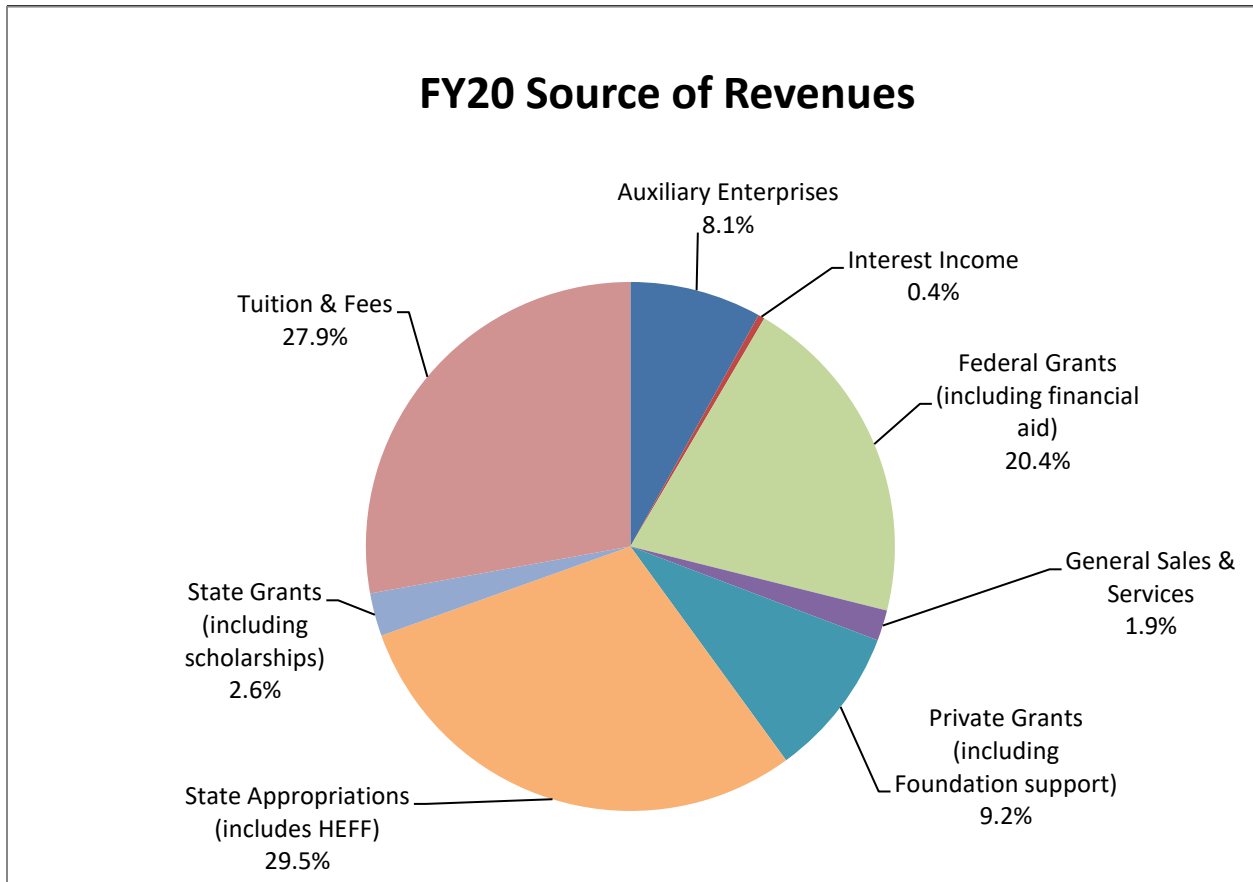
Condensed Statement of Revenues, Expenses and Changes in Net Position

| | <u>30-Jun-2020</u> | <u>30-Jun-2019</u> |
|--|-----------------------------|-----------------------------|
| Operating Revenues | \$ 48,549,719 | \$ 49,517,659 |
| Operating Expenses | <u>\$ (71,380,179)</u> | <u>\$ (68,178,872)</u> |
| Operating Loss | \$ (22,830,460) | \$ (18,661,213) |
| | | |
| Non-Operating Revenues | \$ 23,011,157 | \$ 19,684,796 |
| Non-Operating Expenses | <u>\$ (1,411,154)</u> | <u>\$ (1,686,010)</u> |
| Net Gain/(Loss) before capital contributions | \$ (1,230,457) | \$ (662,428) |
| Capital Contributions | <u>\$ 2,608,182</u> | <u>\$ 1,572,035</u> |
| Increase(Decrease) in Net Position | \$ 1,377,725 | \$ 909,607 |
| Net Position, Beginning of Year | <u>\$ 77,809,402</u> | <u>\$ 76,899,795</u> |
| Net Position, End of Year | <u><u>\$ 79,187,127</u></u> | <u><u>\$ 77,809,402</u></u> |

- Operating revenues decreased about 2% compared to FY19. This was mainly due to an enrollment decline of approximately 3%. Operating expenditures increased 5% primarily related to increases in personal services.
- State appropriations, totaling \$18 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 \$2.5 million from the Higher Education Facilities fund and General Fund M&R allocation, with \$1.95 million used for the McLaury building renovation and \$100 thousand from research grant funds for capital equipment, during FY20.

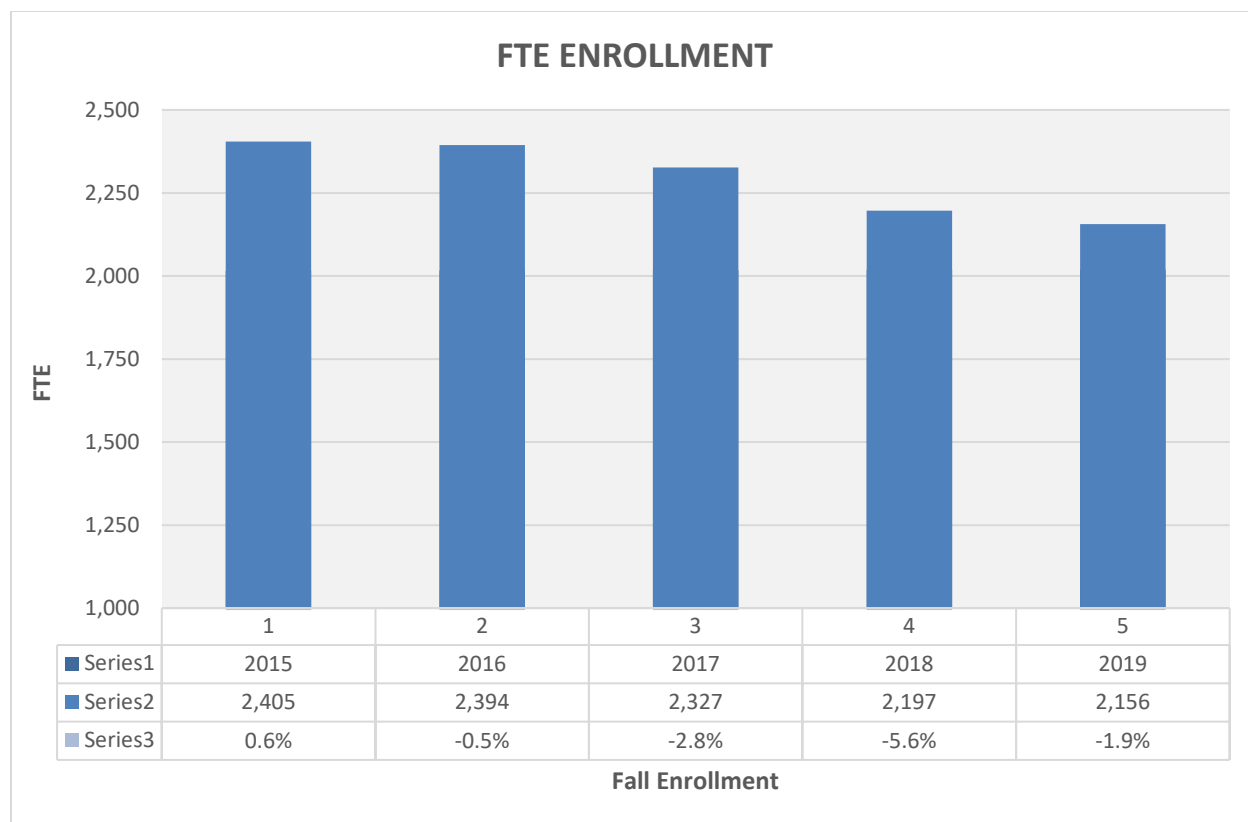
Revenues

The chart below is an illustration of SD Mines' major revenue sources, for the year ended June 30, 2020:



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

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



Operating Expenses

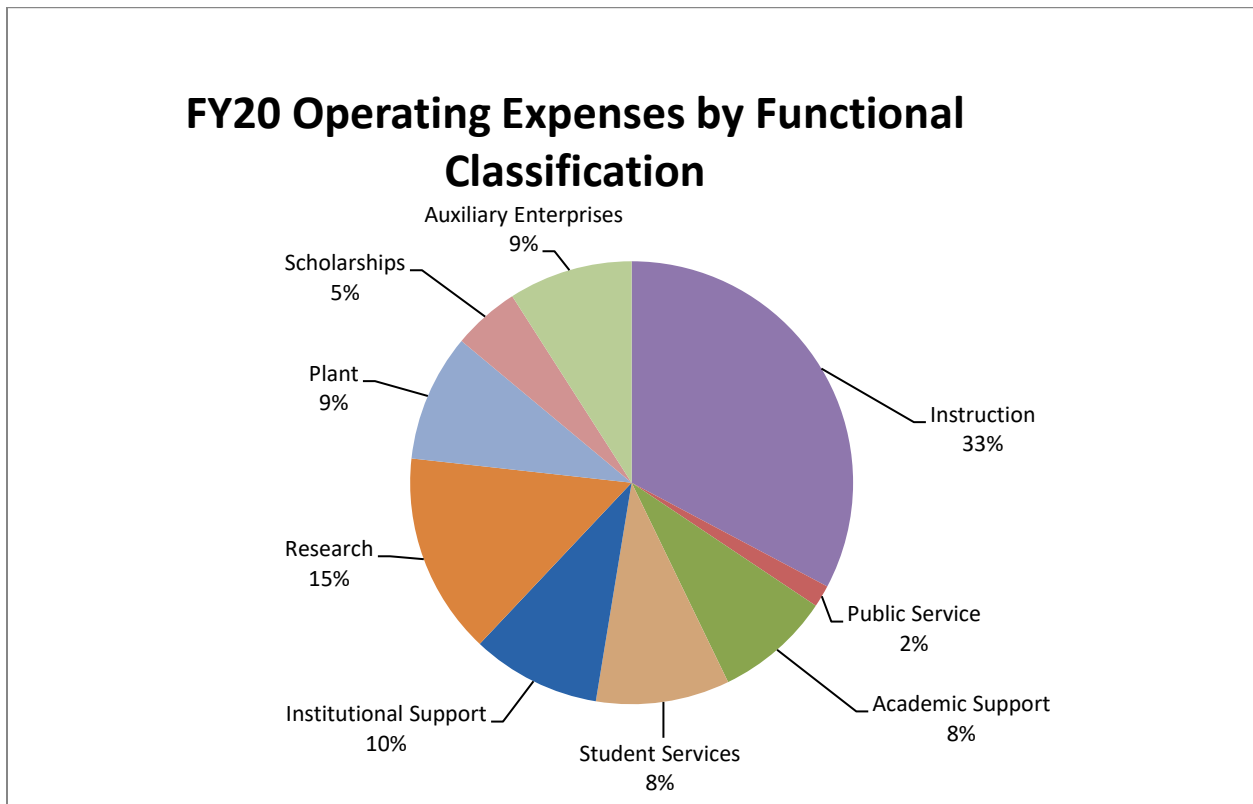
The University reports operating expenses in the natural classification, in the Statement of Revenues, Expenses, and Changes in Net Position.

Operating Expenses Natural Classification

| | <u>6/30/2020</u> | <u>6/30/2019</u> |
|--|----------------------|----------------------|
| Personal Services | \$ 43,577,856 | \$ 41,207,743 |
| Travel | \$ 1,438,596 | \$ 1,797,817 |
| Contractual | \$ 9,884,411 | \$ 10,718,334 |
| Supplies and Materials | \$ 6,740,992 | \$ 6,445,423 |
| Grants & Subsidies | \$ 5,425,698 | \$ 3,582,756 |
| Other | \$ 72,553 | \$ 139,623 |
| Depreciation & Amortization of Intangibles | \$ 4,240,072 | \$ 4,287,175 |
| Total Operating Expenses | \$ 71,380,179 | \$ 68,178,872 |

Operating expenses increased \$3.2 million, mainly due to increases in personal services, \$2.4 million, and increased scholarship awards of about \$1 million and a \$700 thousand increase in research grant subcontracts, offset by decrease in the other categories.

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



Operating expenditures by functional classification remained relatively stable, as compared to FY19. There was a 4 percent decrease in auxiliary expenditures reflecting the decline in enrollment, and a 2 percent increase in scholarships, which will help us regain enrollment. 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, 2020 and 2019 is as follows:

Condensed Statement of Cash Flows

| | <u>6/30/2020</u> | <u>6/30/2019</u> |
|--------------------------------------|----------------------------|----------------------------|
| Cash Provided/Used by: | | |
| Operating Activities | (\$19,255,192) | (\$13,031,782) |
| Non-Capital Financing Activities | \$22,774,707 | \$19,482,978 |
| Capital Related Financing Activities | (\$4,013,500) | (\$4,829,517) |
| Investing Activities | <u>\$198,556</u> | <u>\$112,747</u> |
| Net increase (decrease) in cash | (\$295,429) | \$1,734,426 |
| Cash - Beginning of year | <u>\$20,272,250</u> | <u>\$18,537,824</u> |
| Cash - End of year | <u><u>\$19,976,821</u></u> | <u><u>\$20,272,250</u></u> |

Major sources of FY20 operating cash included Tuition & Fees and Auxiliaries of \$26.5 million, Grants and Contracts of \$19.3 million, and General Sales & Services of \$1.5 million. The largest use of operating cash was for Personal Services of \$43 million.

The most significant source of cash for non-capital financial activities cash was General Fund Appropriations of \$18 million.

The most significant sources of Cash for Capital Related Financing Activities were proceeds from capital debt of \$1.4 million for tablet computers and \$2.5 million from the Higher Education Facilities Fund and General Fund M&R. The most significant uses of cash for capital related financing activities include the Purchase of Capital Assets of \$4.1 million, which includes \$2.9 million of renovation costs for the McLaury building and \$1.2 million for new equipment purchases. Debt service payments of \$3.8 million round out the remainder of capital related activities.

COVID-19 AND CARES ACT

The University suspended face-to-face instruction as of March 16, 2020 in response to the COVID-19 pandemic. Students were on Spring Break and were advised not to return to campus. Instruction was moved to online or remote learning on March 23 for the remainder of the spring semester 2020, as well as the summer semesters.

University housing and campus operations remained open to accommodate students who were not able to move off campus. Students electing to move out prior to March 31, 2020 were given a credit for the remainder of the semester for room, board, and parking, which they received as a refund. The University refunded housing, meal plans, and parking in the total amount of \$1,743,873 to reimburse students for the remainder of spring semester 2020.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law to provide economic relief from COVID-19. The University received \$1,455,698 (\$727,849 for each the Student Emergency Aid portion and the Institutional portion) in CARES Act Higher Education Emergency Relief Fund (HEERF) grants from the U.S. Department of Education, prior to the end of FY20. The State of South Dakota (SD) also received COVID Relief funding (CRF) from the federal government. These grants carried certain compliance requirements as to how the funds were spent and recorded. The SD

Department of Finance approved certain university COVID related expenditures to be paid with the State's CRF funding.

As of June 30, 2020, SD Mines awarded \$350,370 to students from the CARES Student Emergency grant. SD Mines also recorded expenditures of \$94,404 to the Institutional portion of the CARES funding. The revenue that covered these expenditures is reported in nonoperating revenues on the Statement of Revenues, Expenses, and Change in Net Position. In addition, the State of South Dakota allowed SD Mines to record expenditures of \$1,080,566 to the State's CRF award. These expenditures are recorded in the combined CAFR for the State of South Dakota, as of June 30, 2020.

In anticipation of revenue losses during the summer months of 2020, the administration of the University cut remaining operating budgets, as of March 23, 2020, by 50% across the board and implemented a hiring freeze.

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 2021 and beyond, though the effects that the COVID-19 pandemic will have on the University is still unknown. Strategic planning focused in part on increasing enrollment or at least maintaining enrollment through the pandemic is the current focus, in hopes to position SD Mines for the future, both academically and financially.

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

State support remains an important revenue source for SD Mines. For FY21, 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, 2020

| | FY2020 | FY2019 |
|---|--------------------------|--------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 17,327,310.95 | \$ 17,611,269.79 |
| Accounts Receivable - Student Accounts (net of allowance FY20, \$392,058; FY19, \$389,999) | 561,317.77 | 472,511.66 |
| Accounts Receivable - Sales and Services | 953,817.04 | 1,122,242.58 |
| Notes Receivable | 415,240.55 | 433,832.04 |
| Interest Receivable | 306,399.06 | 263,181.34 |
| Inventories | 442,481.84 | 352,343.76 |
| Due from Federal | 3,242,517.96 | 2,178,110.31 |
| Due from Primary | 47,884.42 | 8,657.72 |
| Due from Component Units | 185,822.38 | 129,355.38 |
| Prepaid Expenses | 13,775.17 | 18,366.90 |
| Unamortized Cost of Bond Issuance | - | - |
| Total Current Assets | <u>23,496,567.14</u> | <u>22,589,871.48</u> |
| Non-Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,649,510.23 | \$ 2,660,979.89 |
| Notes Receivable | 1,142,063.91 | 1,538,712.97 |
| Construction in Progress | 6,067,783.85 | 3,690,418.39 |
| Buildings and Building Improvements (net of accumulated depreciation FY20, \$36,604,525; FY19, \$34,370,450) | 72,860,631.40 | 74,572,391.40 |
| Land | 61,872.83 | 61,872.83 |
| Land Improvements (net of accumulated depreciation FY20, \$1,961,000; FY19, \$1,765,043) | 3,246,791.53 | 3,442,748.44 |
| Infrastructure (net of accumulated depreciation FY20, \$4,405,969; FY19, \$4,139,943) | 4,982,983.84 | 5,249,010.52 |
| Equipment and Other Property (net of accumulated depreciation FY20, \$34,345,779; FY19, \$33,508,708) | 7,075,300.77 | 7,440,300.08 |
| Intangible Assets (net of accumulated amortization FY20, \$7,348; FY19, \$3,674) | 11,022.27 | 14,696.36 |
| Total Noncurrent Assets | <u>98,097,960.63</u> | <u>98,671,130.88</u> |
| TOTAL ASSETS | <u>\$ 121,594,527.77</u> | <u>\$ 121,261,002.36</u> |
| Deferred Outflows of Resources | | |
| Loss on Debt Refunding | \$ 549,333.35 | \$ 589,304.07 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 122,143,861.12</u> | <u>\$ 121,850,306.43</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 835,644.09 | 1,086,236.61 |
| Accrued Wages & Benefits | 899,251.23 | 694,512.64 |
| Accrued Interest Payable | 341,127.50 | 354,905.00 |
| Compensated Absences Payable | 1,914,265.21 | 1,800,853.61 |
| Bonds Payable | 1,464,214.17 | 1,414,214.17 |
| Obligations under Capital Leases | 1,202,661.18 | 940,146.16 |
| Unearned Revenues | 593,843.09 | 856,361.18 |
| Due to Federal | 633,445.15 | - |
| Due to Primary Government | 25,787.15 | 43,555.67 |
| Due to Other Component Units | 90,692.75 | 158,916.80 |
| Funds Held for Others | 126,034.72 | 128,810.19 |
| Student Deposits | 164,154.21 | 151,810.29 |
| Other Accrued Liabilities | 147,817.12 | 105,448.22 |
| Total Current Liabilities | <u>8,438,937.57</u> | <u>7,735,770.54</u> |
| Non-Current Liabilities: | | |
| Compensated Absences Payable | 1,835,393.84 | 1,737,846.87 |
| Bonds Payable | 30,152,824.98 | 31,617,039.15 |
| Obligations under Capital Leases | 1,428,663.25 | 1,438,664.49 |
| Federal Capital Contribution Advance for Student Loans | 1,100,914.00 | 1,511,583.00 |
| Total Noncurrent Liabilities | <u>34,517,796.07</u> | <u>36,305,133.51</u> |
| TOTAL LIABILITIES | <u>\$ 42,956,733.64</u> | <u>\$ 44,040,904.05</u> |
| NET POSITION | | |
| Invested in capital, net of related debt | \$ 62,921,626.26 | \$ 61,692,782.93 |
| Restricted, Nonexpendable: | | |
| Loans | 988,285.73 | 1,020,856.96 |
| Restricted, Expendable: | | |
| Debt Service | 2,649,510.23 | 2,660,979.89 |
| Grants and Contracts | 417,781.08 | 193,661.47 |
| Renewal and Replacement | 2,112,391.80 | 2,112,392.00 |
| Unrestricted | <u>10,097,532.38</u> | <u>10,128,729.13</u> |
| TOTAL NET POSITION | <u>\$ 79,187,127.48</u> | <u>\$ 77,809,402.38</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, 2020 AND 2019**

| ASSETS | 2020 | 2019 |
|--|-----------------------|----------------------|
| Cash and Cash Equivalents (Note 2) | \$ 12,830,855 | \$ 3,262,838 |
| Investments (Notes 2, 7, and 8) | 76,846,443 | 79,170,113 |
| Unconditional Promises to Give, Net (Note 3) | 2,984,184 | 3,301,296 |
| Lease Receivable (Notes 4 and 9) | 296,475 | 313,157 |
| Rental Real Estate, Net (Note 5) | 3,687,612 | 3,662,244 |
| Property and Equipment, Net (Note 6) | 5,032,333 | 5,172,088 |
| Other Assets (Notes 7 and 8) | 845,708 | 706,841 |
| TOTAL ASSETS | \$ 102,523,610 | \$ 95,588,577 |
| LIABILITIES AND NET ASSETS | | |
| Refundable Advance (Note 14) | \$ 244,100 | \$ - |
| Accounts Payable, Accrued Support, and Other (Notes 7 and 8) | 752,142 | 1,138,767 |
| Liability Under Charitable Remainder Trusts (Note 7) | 2,484,334 | 2,762,011 |
| Liability Under Charitable Gift Annuities (Note 8) | 744,643 | 718,665 |
| Note Payable (Note 9) | 317,028 | 336,737 |
| Total Liabilities | 4,542,247 | 4,956,180 |
| Net Assets | | |
| Without Donor Restrictions | 6,484,035 | 6,951,200 |
| With Donor Restrictions - Purpose and Time (Notes 10 and 12) | 21,182,964 | 20,182,634 |
| With Donor Restrictions - Perpetual (Notes 11 and 12) | 70,314,364 | 63,498,563 |
| Total Net Assets With Donor Restrictions | 91,497,328 | 83,681,197 |
| Total Net Assets | 97,981,363 | 90,632,397 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 102,523,610 | \$ 95,588,577 |

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, 2020**

| | FY2020 | FY2019 |
|--|-------------------------|-------------------------|
| Operating Revenues | | |
| Tuition & Fees: | | |
| State Support Tuition Allocation (net of scholarship allowances FY20, \$2,889,399; FY19, \$2,991,610) | \$ 12,265,734.52 | \$ 12,396,988.25 |
| Self Support Tuition (net of scholarship allowances FY20, \$247,305; FY19, \$169,674) | 1,053,076.66 | 832,737.55 |
| Student Fees (net of scholarship allowances FY20, \$1,722,475; FY19, \$1,622,521) | 7,334,667.09 | 8,387,688.18 |
| Auxiliary Sales & Services (net of scholarship allowances FY20, \$1,269,391; FY19, \$1,542,669) | 5,974,197.09 | 7,672,679.92 |
| General Sales & Services | 1,390,080.97 | 1,876,193.14 |
| Federal Grants & Contracts | 11,794,929.08 | 10,209,080.07 |
| State Grants & Contracts | 1,945,737.39 | 1,763,070.65 |
| Private Grants & Contracts | 6,733,612.50 | 6,329,363.90 |
| Student Loan Interest | 57,683.75 | 49,857.59 |
| Total Operating Revenues | <u>48,549,719.05</u> | <u>49,517,659.25</u> |
| Operating Expenses | | |
| Personal Services | 43,577,856.16 | 41,207,743.28 |
| Travel | 1,438,596.33 | 1,797,816.55 |
| Contractual | 9,884,411.19 | 10,718,334.07 |
| Supplies and Materials | 6,740,992.06 | 6,445,423.28 |
| Grants & Subsidies | 5,425,698.20 | 3,582,755.91 |
| Other | 72,553.25 | 139,623.43 |
| Depreciation | 4,236,397.53 | 4,283,501.35 |
| Amortization of Intangibles | 3,674.09 | 3,674.09 |
| Total Operating Expenses | <u>71,380,178.81</u> | <u>68,178,871.96</u> |
| Operating Loss | <u>(22,830,459.76)</u> | <u>(18,661,212.71)</u> |
| Nonoperating Revenues (Expenses) | | |
| General Fund Appropriations | 18,096,067.99 | 16,947,459.78 |
| School & Public Lands | 179,495.63 | 134,725.30 |
| Higher Education Facilities Fund | 1,128,160.08 | 371,094.82 |
| Investment Income | 236,450.13 | 201,818.04 |
| PELL Grants | 1,845,643.73 | 2,029,698.27 |
| Federal Higher Education COVID Relief Fund | 1,525,339.53 | - |
| Interest on capital asset, related debt | (1,384,656.65) | (1,641,944.43) |
| Loss on Disposal of Assets | (26,497.72) | (44,065.80) |
| Net Nonoperating Revenues | <u>21,600,002.72</u> | <u>17,998,785.98</u> |
| Income Before Other Revenues, Expenses, Gains, or Losses | (1,230,457.04) | (662,426.73) |
| Other Revenues | | |
| HEFF | 2,512,351.27 | 1,365,369.25 |
| Capital Grants & Contracts | 95,830.87 | 200,215.69 |
| BAB Subsidy | - | 6,449.62 |
| Total Other Revenues | <u>2,608,182.14</u> | <u>1,572,034.56</u> |
| Change in Net Position | <u>1,377,725.10</u> | <u>909,607.83</u> |
| Net Position - Beginning of the year | 77,809,402.38 | 76,899,794.55 |
| Adjustment to beginning balance | - | - |
| Net Position - Beginning of year | <u>77,809,402.38</u> | <u>76,899,794.55</u> |
| Net Position - End of year | <u>\$ 79,187,127.48</u> | <u>\$ 77,809,402.38</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, 2020, WITH COMPARATIVE TOTALS FOR 2019**

| | ----- 2020 ----- | | | 2019 Total | |
|---|-------------------------------|-------------------------|----------------------|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | | | |
| | | Purpose and Time | Perpetual | Total | |
| Support, Gains, and Revenues | | | | | |
| Contributions | \$ 440,373 | \$ 2,263,568 | \$ 3,557,792 | \$ 6,261,733 | \$ 7,067,915 |
| In-Kind Contributions (Note 1) | - | 19,822 | - | 19,822 | 64,443,282 |
| Wills and Bequests | 14,455 | 1,302,455 | 3,173,234 | 4,490,144 | 782,072 |
| Net Investment Return, Including Net Realized and Unrealized Gain and Rental Real Estate (Net of Fees and Expenses of \$446,585 and \$485,004 for the Years Ended June 30, 2020 and 2019, Respectively) | 1,056,956 | 2,147,696 | 169,647 | 3,374,299 | 3,674,128 |
| Net Investment Return on Trust and Annuity Interests | - | (1,819) | (84,872) | (86,691) | 129,230 |
| Other Income | 207,109 | 246,812 | - | 453,921 | 672,149 |
| Net Assets Released from Restrictions (Note 10) | 4,978,204 | (4,978,204) | - | - | - |
| Total Support, Gains, and Revenues | 6,697,097 | 1,000,330 | 6,815,801 | 14,513,228 | 76,768,776 |
| Expenses | | | | | |
| <i>Program Services (Note 10)</i> | | | | | |
| Scholarships and Fellowships | 3,312,853 | - | - | 3,312,853 | 2,933,363 |
| General Student Assistance | 348,401 | - | - | 348,401 | 347,342 |
| General In-Kind Support to SDSM&T (Note 1) | 19,822 | - | - | 19,822 | 64,443,282 |
| General Support to SDSM&T | 1,322,189 | - | - | 1,322,189 | 1,070,189 |
| Total Program Services | 5,003,265 | - | - | 5,003,265 | 68,794,176 |
| <i>Supporting Services:</i> | | | | | |
| Fundraising | 1,256,926 | - | - | 1,256,926 | 1,156,861 |
| Administrative | 904,071 | - | - | 904,071 | 801,782 |
| Total Supporting Services | 2,160,997 | - | - | 2,160,997 | 1,958,643 |
| Total Expenses | 7,164,262 | - | - | 7,164,262 | 70,752,819 |
| Change in Net Assets | (467,165) | 1,000,330 | 6,815,801 | 7,348,966 | 6,015,957 |
| Net Assets -- Beginning of Year | 6,951,200 | 20,182,634 | 63,498,563 | 90,632,397 | 84,616,440 |
| Net Assets -- End of Year | \$ 6,484,035 | \$ 21,182,964 | \$ 70,314,364 | \$ 97,981,363 | \$ 90,632,397 |

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY**Statement of Cash Flows****June 30, 2020**

| | FY2020 | FY2019 |
|--|---------------------------|---------------------------|
| Cash Flows from Operating Activities | | |
| Tuition & Fees | \$ 20,565,367.71 | \$ 21,458,485.15 |
| Auxiliary Sales & Services | \$ 5,973,126.71 | 7,672,939.99 |
| Federal Grants and Contracts | \$ 10,925,300.71 | \$ 10,094,838.75 |
| Other Grants and Contracts | \$ 8,389,637.64 | 8,491,184.85 |
| General Sales & Services | \$ 1,488,561.53 | 2,117,384.40 |
| Other Revenue | \$ 20,661.75 | 40,323.52 |
| Loans issued to students | \$ - | - |
| Loans collected from students | \$ 449,796.64 | 486,914.41 |
| Personal Services | \$ (43,162,159.01) | (41,151,365.71) |
| Travel | \$ (1,456,364.85) | (1,800,970.44) |
| Contractual | \$ (10,175,854.47) | (10,340,837.01) |
| Supplies and noncapitalized equipment | \$ (6,826,538.41) | (6,410,994.26) |
| Grants & Subsidies | \$ (5,425,698.20) | (3,582,755.91) |
| Other Expenses | \$ (21,029.92) | (106,929.70) |
| Net cash provided (used) by operating activities | <u>(19,255,192.17)</u> | <u>(13,031,781.96)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| State Appropriations | 18,275,563.62 | 17,082,185.08 |
| Higher Education Facilities Fund | 1,128,160.08 | 371,094.82 |
| PELL Grants | 1,845,643.73 | 2,029,698.27 |
| Federal Fund Appropriations (HERFF) | 1,525,339.53 | - |
| Direct and PLUS Loan Receipts | 9,651,513.00 | 11,048,983.00 |
| Direct and PLUS Loan Disbursements | <u>(9,651,513.00)</u> | <u>(11,048,983.00)</u> |
| Net cash flows provided by noncapital financing activities | <u>22,774,706.96</u> | <u>19,482,978.17</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| State Building Authority | - | - |
| Capital Grants & Contracts | 95,830.87 | 200,215.69 |
| Higher Education Facilities Fund | 2,512,351.27 | 1,365,369.25 |
| Build America Bond Subsidy | - | 6,449.62 |
| Revenue Bond Discounts/Premiums & related costs | (139,243.47) | (139,243.45) |
| Proceeds from Capital Debt | 1,416,500.00 | 1,074,000.00 |
| Principal Paid on Capital Related Debt | (2,398,986.22) | (2,530,826.10) |
| Interest Paid on Capital Related Debt | (1,398,434.15) | (1,655,292.56) |
| Purchase of capital assets | <u>(4,101,517.81)</u> | <u>(3,150,189.82)</u> |
| Net cash used by capital and related financing activities | <u>(4,013,499.51)</u> | <u>(4,829,517.37)</u> |
| Cash Flows from Investing Activities | | |
| Investment Income | <u>198,556.19</u> | <u>112,746.90</u> |
| Net increase in cash | (295,428.53) | 1,734,425.74 |
| Cash and Cash Equivalents - Beginning of year | 20,272,249.68 | 18,537,823.94 |
| Cash and Cash Equivalents - End of year | <u>\$ 19,976,821.15</u> | <u>\$ 20,272,249.68</u> |
| Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities | | |
| Operating Loss | \$ (22,830,459.76) | \$ (18,661,212.71) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 4,236,397.53 | 4,283,501.35 |
| Amortization expense | 3,674.09 | 3,674.09 |
| Change in assets and liabilities: | | |
| Prepaid Expenses | 4,591.73 | (18,366.90) |
| Receivables, net | (670,565.15) | 785,795.89 |
| Inventories | (90,138.08) | 52,795.92 |
| Deferred Revenue | (262,518.09) | 54,674.66 |
| Payables, net | 353,825.57 | 467,355.74 |
| Net Cash Used by Operating Activities | <u>\$ (19,255,192.16)</u> | <u>\$ (13,031,781.96)</u> |
| Noncash Transactions | | |
| Loss on Disposal of Capital Assets | \$ (34,997.72) | \$ (45,765.80) |
| Loan Cancellation Expense | \$ (12,283.88) | \$ (1,215.21) |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Revenue Collected: | | |
| Other Revenue - Contributions | \$ 4,959,418 | \$ 6,915,202 |
| Payments for Expenses: | | |
| Personal Services | (1,290,280) | (1,278,208) |
| Travel | (427,499) | (512,305) |
| Contractual | (374,164) | (316,519) |
| Supplies and Materials | (1,208,119) | (1,074,399) |
| Grants and Subsidies | (4,030,178) | (3,581,382) |
| Interest Paid | (13,315) | (21,249) |
| Net Cash Flows Provided by (Used in) Operating Activities | (2,384,137) | 131,140 |
| Cash Flows from Investing Activities | | |
| Proceeds from Sale of Investments | 33,687,513 | 17,629,592 |
| Purchases of Investments | (28,399,894) | (15,672,320) |
| Repayments of Notes and Leases Receivable | 16,681 | 35,420 |
| Alumni Center Construction in Progress | - | (3,415,896) |
| Purchase of Office Equipment | - | (231,295) |
| Purchase of Rental Property | (99,761) | (138,207) |
| Proceeds from Sale of Rental Property held in Trust | - | 259,945 |
| Net Cash Flows Provided by (Used in) Investing Activities | 5,204,539 | (1,532,761) |
| Cash Flows from Financing Activities | | |
| Contributions Restricted for Endowment Purposes | 6,771,244 | 2,781,867 |
| Payments on Note Payable | (19,709) | (704,650) |
| Increase (Decrease) in Due to Others | (3,920) | 7,011 |
| Net Cash Flows Provided by Financing Activities | 6,747,615 | 2,084,228 |
| Net Change in Cash and Cash Equivalents | 9,568,017 | 682,607 |
| Cash and Cash Equivalents -- Beginning of Year | 3,262,838 | 2,580,231 |
| Cash and Cash Equivalents -- End of Year | \$ 12,830,855 | \$ 3,262,838 |

**STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-------------------|
| Reconciliation of Increase in Net Assets to Net Cash Flows Provided by (Used in) Operating Activities | | |
| Increase in Net Assets | \$ 7,348,966 | \$ 6,015,957 |
| <i>Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Provided by (Used in) Operating Activities:</i> | | |
| Depreciation | 214,149 | 88,210 |
| Net Realized and Unrealized Gain on Investments, Property, Trust and Annuity Interests | (3,328,896) | (3,892,180) |
| Contributions Restricted for Endowment Purposes | (6,731,026) | (2,787,229) |
| Change in Receivables and Pledges Other Than Endowments | 240,546 | 1,177,574 |
| Change in Payables | (371,976) | (468,930) |
| Change in Promise to Give to Others | - | (2,262) |
| Change in Refundable Advance | 244,100 | - |
| Net Cash Flows Provided by (Used in) Operating Activities | \$ (2,384,137) | \$ 131,140 |
| Supplemental Schedule of Non-cash Investing and Financing Activities | | |
| Gain on Sale of Rental Real Estate | \$ - | \$ 99,249 |
| Construction in Process Included in Accounts Payable | - | 344,070 |

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, 2020, the Foundation distributed \$4,983,443 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, 2020 were \$946,801 with an allowance for uncollectible accounts of \$392,058 and a net student receivable of \$554,743. The South Dakota Bureau of Finance and Management (BFM) approved write offs of student accounts in the amount of \$35,813 for FY20.

Accounts receivable for Sales and Service includes non-Federal grant and contract receivables, in the amount of \$670,103, as of June 30, 2020. 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, 2020. 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, 2020 is as follows:

Footnote IX Capital Asset Disclosure

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------------------------|-------------------|-------------------|-----------------|-------------------|
| Land | \$ 61,872.83 | \$ - | \$ - | \$ 61,872.83 |
| Land Improvements | \$ 5,207,791.75 | \$ - | \$ - | \$ 5,207,791.75 |
| Infrastructure | \$ 9,388,953.25 | \$ - | \$ - | \$ 9,388,953.25 |
| Buildings | \$ 108,942,841.36 | \$ 522,314.72 | \$ - | \$ 109,465,156.08 |
| Equipment & other property | \$ 38,705,264.48 | \$ 1,206,955.03 | \$ (734,569.06) | \$ 39,177,650.45 |
| Library materials | \$ 2,243,743.36 | \$ 3,382.60 | \$ (3,696.90) | \$ 2,243,429.06 |
| Total | \$ 164,550,467.03 | \$ 1,732,652.35 | \$ (738,265.96) | \$ 165,544,853.42 |
| Less accumulated depreciation: | | | | |
| Land Improvements | \$ 1,765,043.31 | \$ 195,956.91 | \$ - | \$ 1,961,000.22 |
| Infrastructure | \$ 4,139,942.73 | \$ 266,026.68 | \$ - | \$ 4,405,969.41 |
| Buildings | \$ 34,370,449.96 | \$ 2,234,074.72 | \$ - | \$ 36,604,524.68 |
| Equipment & other property | \$ 31,358,135.21 | \$ 1,525,167.56 | \$ (699,571.34) | \$ 32,183,731.43 |
| Library materials | \$ 2,150,572.55 | \$ 15,171.66 | \$ (3,696.90) | \$ 2,162,047.31 |
| Total | \$ 73,784,143.76 | \$ 4,236,397.53 | \$ (703,268.24) | \$ 77,317,273.05 |
| Capital Assets, net | \$ 90,766,323.27 | \$ (2,503,745.18) | \$ (34,997.72) | \$ 88,227,580.37 |

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

M. Net Position:

SDSM&T net position is classified as follows:

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

N. Scholarship Allowances and Student Aid:

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

O. Revenue Recognition:

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

P. Operating and Non-operating Revenues:

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

II. CASH AND CASH EQUIVALENTS

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

III. RETIREMENT PLAN

SDSM&T participates in a mandatory retirement program administered by the South Dakota Retirement System. Employer-paid expenditures under this program for the year end June 30, 2020 were \$1,027,568.

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 FY20 was \$18,611,180. SDSM&T carried over \$488,000, a special appropriation for Ascent Innovation run through SD Mines books, and reverted unspent funds, in the amount of \$27,112 back to the General fund.

V. TUITION AND HEFF

SDSM&T received tuition revenue in the amount of \$16,287,050, during fiscal year 2020. Of this amount, \$2,148,378 was remitted to the Board of Regents and deposited into the Higher Education Facilities Fund (HEFF). An additional \$219,069 was remitted 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 FY20. SDSM&T spent \$2,603,853 from the HEFF pool and an additional \$1,002,565 from the Board of Regents General Fund appropriation for facility M&R. These amounts are combined on the HEFF non-operating and capital revenue lines in the financial report.

VI. ENDOWMENT AND SIMILAR FUNDS

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

VII. FUNDS HELD FOR OTHERS

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

VIII. LONG TERM DEBT AND OTHER OBLIGATIONS

Revenue Bonds were authorized by the Board of Regents to finance the construction of a new residence hall, the remodeling of the student center and two residence halls, and an addition of a Recreation Wellness Center to the King Center. Principal and interest on long-term debt are payable from auxiliary operating revenues and general activity fees. Net revenues pledged to the bond debt for FY20 is \$3,438,259.

| | Balance | | | Balance | Due |
|------------------------------------|--------------|-------------|---------------|--------------|-----------------|
| | 6/30/2019 | Additions | Reductions | 6/30/2020 | Within One Year |
| Revenue Bonds, Payable | | | | | |
| Series 2008B | \$2,390,000 | \$0 | (\$220,000) | \$2,170,000 | \$ 230,000 |
| Series 2014A | \$5,990,000 | \$0 | (\$185,000) | \$5,805,000 | \$ 195,000 |
| Series 2014B | \$5,155,000 | \$0 | (\$265,000) | \$4,890,000 | \$ 275,000 |
| Series 2017 | \$16,490,000 | \$0 | (\$565,000) | \$15,925,000 | \$ 585,000 |
| Lease Obligations | \$2,378,811 | \$1,416,500 | (\$1,163,986) | \$2,631,324 | \$1,202,661 |
| Total Long-Term Debt | \$32,403,811 | \$1,416,500 | (\$2,398,986) | \$31,421,324 | \$2,487,661 |
| Compensated Absences | \$3,538,700 | \$1,305,936 | (\$1,094,977) | \$3,749,658 | \$1,914,265 |
| Federal Portion of Loan Programs | \$1,511,583 | \$0 | (\$410,669) | \$1,100,914 | \$0 |
| Total Long-Term Debt & Obligations | \$37,454,093 | \$2,722,436 | (\$3,904,632) | \$36,271,897 | \$4,401,926 |

Revenue bond payables, as of June 30, 2020, are as follows:

Housing and Auxiliary Facilities Revenue Bonds, Series 2008B
 Surbeck Center Remodel
 Date of Issuance: November 4, 2008
 Bond Proceeds: \$4,135,000
 Interest rate: 4.55%
 Term: 20 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2014A
 Recreation/Wellness Center
 Date of Issuance: January 9, 2014
 Bond Proceeds: \$6,820,000
 Variable Interest rate: 3%-4.75%
 Term: 25 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2014B
 Refunding of Series 2003 bond, Peterson Hall construction and Surbeck Center remodel
 Date of Issuance: September 16, 2014
 Bond Proceeds: \$6,470,000
 Variable Interest rate: 3%-5%
 Term: 19 years

Housing and Auxiliary Facilities Revenue Bonds, Series 2017
 Partial refunding of Series 2009 bond, Placer Hall purchase
 Date of Issuance: December 21, 2017
 Bond Proceeds: \$16,715,000
 Variable Interest rate: 3%-5%
 Term: 25 years

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

| | Total Bonds Payable | Short Term Portion | Long Term Portion |
|-------------------------------|---------------------|--------------------|-------------------|
| Bonds Payable | \$28,790,000 | \$1,285,000 | \$27,505,000 |
| Premium | \$2,827,039 | \$179,214 | \$2,647,825 |
| Original Issue Discount | \$0 | \$0 | \$0 |
| Per Statement of Net Position | \$31,617,039 | \$1,464,214 | \$30,152,825 |

Long-Term Leases, Payable includes the lease of the President's house, owned by the Foundation, in the amount of \$317,054., leases for tablet computers purchased for our students, in the amount of \$2,205,811, and a lease for residence hall furniture in the amount of \$108,459.

The annual requirements to amortize all long-term leases outstanding, as of June 30, 2020, are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|-----------------|--------------|-----------------|
| FY2021 | \$ 1,202,661.18 | \$ 86,400.23 | \$ 1,289,061.41 |
| FY2022 | \$ 661,305.41 | \$ 44,516.17 | \$ 705,821.58 |
| FY2023 | \$ 642,968.55 | \$ 15,764.25 | \$ 658,732.80 |
| FY2024 | \$ 124,389.30 | \$ 2,954.46 | \$ 127,343.76 |
| FY2025 | \$ - | \$ - | \$ - |
| FY2026-30 | \$ - | \$ - | \$ - |

Federally funded loans to students (Perkins Loan Program) have been determined to be a long-term liability, payable to the federal government. The Perkins Loan Program was dissolved as of Sept. 30, 2017. The last Perkins awards made were in FY17. In FY20, the Department of Education began billing us a portion of our Perkins loan collections to repay the initial Federal contribution, as seen in the Long-Term Liability summary above.

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, 2020 pay rate.

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

IX. OPERATING LEASES

SDSM&T has entered into operating lease agreements for copiers, student housing, and space used for instructional and research purposes. The copier leases were renewed on a three-year lease, in FY18. The university is currently leasing two buildings for student housing from Technology Housing, LLC. This lease was initiated in August 2014 for a period of 10 years. The remaining amount on this lease is \$5,248,000. The university also has leases for space in the Foundation and Black Hills Business Development Center. Lease payments are reported as operating expense. A summary of changes in operating leases follows:

| <u>Balance</u> <u>7/1/2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>6/30/2020</u> |
|-----------------------------------|------------------|-----------------------|------------------------------------|
| <u>\$6,860,346</u> | <u>\$ 36,729</u> | <u>\$ (1,425,594)</u> | <u>\$ 5,471,481</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.

| | |
|------------|-------------|
| 2021 | \$1,399,856 |
| 2022 | \$1,360,158 |
| 2023 | \$1,292,344 |
| 2024 | \$1,290,546 |
| 2025 | \$ 128,577 |
| Thereafter | \$ - |

X. FUNCTIONAL CLASSIFICATION OF EXPENSES AND DEPRECIATION

| | Personal | | Contractual | Supplies & | Grants & | Other | | |
|------------------------------|--------------|-------------|--------------|-------------|-------------|-----------|--------------|--------------|
| | Services | Travel | Services | Materials | Subsidies | Expense | Depreciation | Total |
| Instruction | \$20,884,146 | \$504,101 | \$333,866 | \$519,409 | \$120 | \$37 | \$1,141,942 | \$23,383,621 |
| Research | \$5,746,246 | \$297,006 | \$510,145 | \$795,373 | \$1,974,855 | \$43 | \$1,185,478 | \$10,509,146 |
| Public Service | \$825,853 | \$18,113 | \$108,501 | \$175,685 | | \$1,371 | \$19,981 | \$1,149,503 |
| Academic Support | \$3,318,958 | \$31,816 | \$785,059 | \$1,716,291 | \$0 | \$2 | \$182,995 | \$6,035,122 |
| Student Services | \$4,757,189 | \$502,304 | \$584,070 | \$734,098 | | \$121 | \$391,511 | \$6,969,292 |
| Institutional Support | \$4,139,956 | \$39,765 | \$2,210,461 | \$215,424 | \$0 | \$38,006 | \$94,726 | \$6,738,337 |
| O&M of Plant | \$2,873,985 | \$41,095 | \$1,329,334 | \$1,748,228 | \$0 | | \$650,645 | \$6,643,286 |
| Scholarships and Fellowships | \$0 | \$0 | \$0 | \$0 | \$3,450,723 | \$32,964 | | \$3,483,686 |
| Auxiliary Enterprises | \$1,031,522 | \$4,397 | \$4,022,976 | \$836,484 | | \$10 | \$572,795 | \$6,468,184 |
| Total | \$41,207,743 | \$1,797,817 | \$10,718,334 | \$6,445,423 | \$3,582,756 | \$139,623 | \$4,287,175 | \$71,380,179 |

Federal Coronavirus Aid, Relief, and Economic Security Act revenue

The University suspended face-to-face instruction as of March 16, 2020 in response to the COVID-19 pandemic. Students were on Spring Break and were advised not to return to campus. Instruction was moved to online or remote learning on March 23 for the remainder of the spring semester 2020, as well as the summer semesters.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law to provide economic relief from COVID-19. The University received \$727,849 for Student Emergency Aid and \$727,849 for Institutional aid in CARES Act Higher Education Emergency Relief Fund (HEERF) grants from the U.S. Department of Education, prior to the end of FY20. The State of South Dakota (SD) also received COVID Relief funding (CRF) from the federal government. These grants carried certain compliance requirements as to how

the funds were spent and recorded. The SD Department of Finance approved certain university COVID related expenditures to be paid with the State's CRF funding, in addition to our own grant funding.

As of June 30, 2020, SD Mines awarded \$350,370 to students from the CARES Student Emergency grant, recorded as scholarships in the Statement of Revenues, Expenses, and Change in Net Position. SD Mines also recorded expenditures of \$94,404 to the Institutional portion of the CARES funding, recorded in the appropriate expenditure category in the Statement of Revenues, Expenses, and Change in Net Position. The grant revenue that covered these expenditures is reported in nonoperating revenues on the Statement of Revenues, Expenses, and Change in Net Position. In addition, the State of South Dakota allowed SD Mines to record expenditures of \$1,080,566 to the State's CRF award. These expenditures are recorded in the combined CAFR for the State of South Dakota, as of June 30, 2020. The remainder of the grant funds will be spent during fiscal year 2021.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

(1) Summary of Significant Accounting Policies

Operations

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

Use of Estimates

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

Basis of Presentation

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

Net Assets without Donor Restrictions – Net assets of the Foundation that are not subject to donor-imposed restrictions and are available for general operations. In addition, the Board of Directors may designate net assets without donor restrictions for specific purposes.

Net Assets with Donor Restrictions – Net assets of the Foundation that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Investments

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

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020 AND 2019

(1) Summary of Significant Accounting Policies (Continued)

Contributions and Promises to Give

Contributions of cash and other assets are recognized as support in the period received at their values. Unconditional promises to give are recognized as revenues in the period pledged. Amounts due after more than one year are recorded at their present value using a discount rate of primarily four percent, per annum. An estimate for uncollectible promises has been presented based on management's judgment, experience with donors, and historical losses. Conditional promises to give – that is those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

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

On an annual basis, the Foundation revalues the "Liability under Charitable Remainder Trusts" and the "Liability under Charitable Gift Annuities" based on actuarial assumptions and present value calculations. For trusts, this liability consists of unearned net investment return, as well as future payments to designated beneficiaries. For charitable gift annuities, this liability consists of the present value of a stream of fixed-annuity payments. The present value of the estimated future payments is calculated using a discount rate and applicable mortality tables. Generally, the Foundation uses three discount rates depending upon the life of the trust or annuity. Discount rates for trusts or annuities with estimated lives of 1 to 5 years, 6 to 15 years, and over 15 years are 4.00 percent, 5.20 percent, and 5.60 percent, respectively, for the years ended June 30, 2020 and 2019. The change in fair value of these assets is recorded annually in the Statement of Activities and Changes in Net Assets as "Net Investment Return on Trust and Annuity Interests" and is recorded as net investment return with or without donor restriction 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 **\$19,822** and **\$64,443,282** for the years ended June 30, 2020 and 2019, respectively.

Depreciation

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

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020 AND 2019

(1) Summary of Significant Accounting Policies (Continued)

Federal Income Tax

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

At June 30, 2020 and 2019, the Foundation believes no significant uncertain tax positions or liabilities exist.

Functional Allocation of Expenses

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

Statements of Cash Flows

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

Rental Real Estate

Rental real estate investments are presented at historical cost less depreciation. Depreciation is computed using the straight-line method over useful lives of 20 to 40 years.

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, 2020, based on anticipated proceeds. Management anticipates no impairment losses.

Accounting Standards Adopted

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 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. The Foundation early adopted the new guidance during the year ended June 30, 2020 using the modified retrospective method which was applied to contracts not completed as of July 1, 2019 (the date of initial application). Adoption of this standard resulted in no changes to revenue recognition for the Foundation as no significant contracts with customers exist.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020 AND 2019

(1) Summary of Significant Accounting Policies (Concluded)

Accounting Standards Adopted (Continued)

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 also assists 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 Foundation adopted this standard during the year ended June 30, 2020 on a modified prospective basis for all agreements not completed as of June 30, 2019. No material impact to the financial statements occurred as a result of adoption. No adjustment to beginning net assets was made.

Emerging Accounting Standards

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, 2021, with early adoption permitted. 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 Foundation will be evaluating the impact this standard will have on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires that contributions of nonfinancial assets be reported in a separate line item within the Statement of Activities. Additional disclosures are also required, to include whether the contributions are monetized or utilized by the entity, the existence of any donor restrictions related to the assets, and how fair value was determined. The standard is effective for years beginning after June 15, 2021. The Foundation 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, 2020 AND 2019

(2) Investments

Investments consist of the following investment types at June 30:

| | ----- 2020 ----- | | ----- 2019 ----- | |
|--|----------------------|----------------------|----------------------|----------------------|
| | Fair Market Value | Cost | Fair Market Value | Cost |
| Money Market Funds included in Cash and Cash Equivalents | \$ 12,264,690 | \$ 12,264,690 | \$ 3,008,415 | \$ 3,008,415 |
| Government Securities/Corporate Bonds/CDs | 6,203,244 | 6,206,602 | 7,155,263 | 7,180,833 |
| Bond Funds | 27,903,824 | 22,139,931 | 23,325,291 | 23,033,666 |
| Stocks | 1,387,067 | 1,231,832 | 1,158,239 | 835,478 |
| Stock Funds | 33,670,959 | 32,341,000 | 39,705,895 | 33,130,613 |
| Alternatives | 2,662,769 | 1,469,329 | 2,822,773 | 1,469,329 |
| Real Estate Funds | 5,018,580 | 2,527,699 | 5,002,652 | 2,523,198 |
| Total Investments | 76,846,443 | 65,916,393 | 79,170,113 | 68,173,117 |
| | \$ 89,111,133 | \$ 78,181,083 | \$ 82,178,528 | \$ 71,181,532 |

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

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Due in one year or less | \$ 4,302,000 | \$ 5,152,111 |
| Due after one year through five years | 1,900,000 | 2,000,000 |
| Due after five years through ten years | - | - |
| Due after ten years | 1,244 | 3,152 |
| | \$ 6,203,244 | \$ 7,155,263 |

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, 2020 AND 2019

(2) Investments (Continued)

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

The following tables present the assets carried at fair value as of June 30, 2020 and 2019, 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, 2020 | Level One | Level Two | Level Three | NAV per Share | Total |
|--------------------------------|----------------------|------------------|--------------------|----------------------|----------------------|
| Money Market Funds included in | | | | | |
| Cash and Cash Equivalents | \$ 12,264,690 | \$ - | \$ - | \$ - | \$ 12,264,690 |
| Gov Sec/Corp Bonds/CDs | - | - | - | 6,203,244 | 6,203,244 |
| Bond Funds | 27,903,824 | - | - | - | 27,903,824 |
| Illiquid Credit | - | - | - | 922,024 | 922,024 |
| Private Equity | - | - | - | 1,740,745 | 1,740,745 |
| Real Estate Funds | 157,110 | - | - | 4,861,470 | 5,018,580 |
| Large-Cap Equity Funds | 14,955,097 | - | - | - | 14,955,097 |
| Small/Mid-Cap Equity Funds | 5,712,663 | - | - | - | 5,712,663 |
| International Equity Funds | 12,200,269 | - | - | - | 12,200,269 |
| Balanced Mutual Funds | 802,930 | - | - | - | 802,930 |
| Large-Cap Stock | 1,272,509 | - | - | - | 1,272,509 |
| International Stock | 114,558 | - | - | - | 114,558 |
| | \$ 75,383,650 | \$ - | \$ - | \$ 13,727,483 | \$ 89,111,133 |

| June 30, 2019 | Level One | Level Two | Level Three | NAV per Share | Total |
|--------------------------------|----------------------|------------------|--------------------|----------------------|----------------------|
| Money Market Funds included in | | | | | |
| Cash and Cash Equivalents | \$ 3,008,415 | \$ - | \$ - | \$ - | \$ 3,008,415 |
| Gov Sec/Corp Bonds/CDs | - | - | - | 7,155,263 | 7,155,263 |
| Bond Funds | 23,325,291 | - | - | - | 23,325,291 |
| Illiquid Credit | - | - | - | 958,213 | 958,213 |
| Private Equity | - | - | - | 1,864,560 | 1,864,560 |
| Real Estate Funds | 176,495 | - | - | 4,826,157 | 5,002,652 |
| Large-Cap Equity Funds | 17,562,593 | - | - | - | 17,562,593 |
| Small/Mid-Cap Equity Funds | 6,280,420 | - | - | - | 6,280,420 |
| International Equity Funds | 14,875,250 | - | - | - | 14,875,250 |
| Balanced Mutual Funds | 987,632 | - | - | - | 987,632 |
| Large-Cap Stock | 1,125,765 | - | - | - | 1,125,765 |
| International Stock | 32,474 | - | - | - | 32,474 |
| | \$ 67,374,335 | \$ - | \$ - | \$ 14,804,193 | \$ 82,178,528 |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(2) Investments (Concluded)

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

| June 30, 2020 | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|------------------------|--------------------------|--|--|--|
| Gov Sec/Corp Bonds/CDs | \$ 6,203,244 | \$ - | Daily | 3 Days |
| Illiquid Credit | 922,024 | 633,624 | ** | N/A |
| Private Equity | 1,740,745 | 505,020 | * | N/A |
| Real Estate Funds | 4,861,470 | - | Quarterly | 60 Days |
| | \$ 13,727,483 | \$ 1,138,644 | | |

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

* Private Equity Funds can be redeemed between years ending December 31, 2020 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:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Receivable in less than one year | \$ 969,641 | \$ 1,053,729 |
| Receivable in one to five years | 2,554,205 | 1,088,179 |
| Receivable in six years | - | 1,945,000 |
| | 3,523,846 | 4,086,908 |
| Less discounts to net present value | 363,468 | 581,266 |
| Less allowance for uncollectible promises | 176,194 | 204,346 |
| Net Promises to Give | \$ 2,984,184 | \$ 3,301,296 |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

(4) Lease 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, 2020 and 2019, is **\$296,475** and \$313,157, respectively. Income recognized on the lease was **\$13,443** and \$13,925 during the years ended June 30, 2020 and 2019, respectively.

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

| | | |
|------------|-----------|----------------|
| 2021 | \$ | 20,668 |
| 2022 | | 21,497 |
| 2023 | | 22,300 |
| 2024 | | 23,100 |
| 2025 | | 24,900 |
| Thereafter | | 184,010 |
| | \$ | 296,475 |

(5) Rental Real Estate

Rental real estate consists of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Land, at cost | \$ 1,475,816 | \$ 1,386,817 |
| Buildings, at cost | 2,699,398 | 2,683,950 |
| Real estate partnership interest, at cost | 469,766 | 469,766 |
| | <u>4,644,980</u> | <u>4,540,533</u> |
| Accumulated depreciation | (957,368) | (878,289) |
| Net Book Value | <u>\$ 3,687,612</u> | <u>\$ 3,662,244</u> |

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

(6) Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|---------------------|---------------------|
| Land | \$ 722,482 | \$ 722,482 |
| Building and Leasehold Improvements | 4,355,359 | 192,893 |
| Office Equipment and Software | 267,622 | 267,622 |
| Construction in Process | - | 4,162,466 |
| | <u>5,345,463</u> | <u>5,345,463</u> |
| Accumulated Depreciation | (313,130) | (173,375) |
| | <u>\$ 5,032,333</u> | <u>\$ 5,172,088</u> |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(7) Charitable Remainder Trusts

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

| | ----- 2020 ----- | | | ----- 2019 ----- | | |
|---------------------------|---------------------|--------------------------------|------------------------------|---------------------|--------------------------------|------------------------------|
| | Market Value | Recorded Net Asset Value | Liability Under Trusts | Market Value | Recorded Net Asset Value | Liability Under Trusts |
| Charitable Unitrusts | \$ 4,661,333 | \$ 2,840,489 | \$ 1,820,844 | \$ 6,071,678 | \$ 3,971,205 | \$ 2,100,473 |
| Charitable Annuity Trusts | 1,169,770 | 506,280 | 663,490 | 1,125,654 | 464,116 | 661,538 |
| | \$ 5,831,103 | \$ 3,346,769 | \$ 2,484,334 | \$ 7,197,332 | \$ 4,435,321 | \$ 2,762,011 |

During the year ended June 30, 2020, there were no new trusts and two trust terminations. The Foundation is the remainderman for 95 and 96 percent of the market value listed above for the years ended June 30, 2020 and 2019, respectively.

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

| | ----- Market Value ----- | |
|------------------|--------------------------|---------------------|
| | 2020 | 2019 |
| Investments | \$ 5,829,847 | \$ 7,180,753 |
| Other Assets | 2,548 | 18,970 |
| Accounts Payable | (1,292) | (2,391) |
| | \$ 5,831,103 | \$ 7,197,332 |

(8) Liability under Charitable Gift Annuities

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

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Market Value | \$ 1,791,952 | \$ 1,778,608 |
| Present Value Discount | 1,047,309 | 1,059,943 |
| Liability Under Charitable Gift Annuities | \$ 744,643 | \$ 718,665 |

During the year ended June 30, 2020, there was one new annuity with a fair market value of \$100,000 and a present value of \$51,314. The Foundation is remainderman for 100 percent of the market value listed above for each of the years ended June 30, 2020 and 2019.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

(8) Liability under Charitable Gift Annuities (Continued)

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

| | <u>2020</u> | <u>2019</u> |
|------------------|---------------------|---------------------|
| Investments | \$ 1,791,383 | \$ 1,778,061 |
| Other Assets | 575 | 991 |
| Accounts Payable | (6) | (444) |
| | <u>\$ 1,791,952</u> | <u>\$ 1,778,608</u> |

(9) Note Payable

Note payable consists of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| 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). | \$ 317,028 | \$ 336,737 |
| | <u>317,028</u> | <u>336,737</u> |
| Current maturities of notes payable | 20,341 | 19,835 |
| | <u>\$ 296,687</u> | <u>\$ 316,902</u> |

The note payable matures as follows during the years ended June 30:

| | |
|------|-------------------|
| 2021 | \$ 20,341 |
| 2022 | 21,479 |
| 2023 | 275,208 |
| | <u>\$ 317,028</u> |

(10) Net Assets With Donor Restrictions - Purpose and Time

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

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Scholarships and Fellowships | \$ 5,549,515 | \$ 5,541,226 |
| General Student Assistance | 1,338,567 | 1,149,206 |
| General Support to SDSM&T | 13,115,636 | 12,031,062 |
| Pledge Donations - Timing Restriction - Determined by Donor at Later Date | 1,179,246 | 1,461,140 |
| | <u>\$ 21,182,964</u> | <u>\$ 20,182,634</u> |

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

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019**

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

During the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|----------------------|
| <i>Purpose of Restriction Accomplished:</i> | | |
| Scholarships and Fellowships | \$ 3,312,853 | \$ 2,933,363 |
| General Student Assistance | 348,401 | 347,342 |
| General Support to SDSM&T | 1,297,128 | 5,051,091 |
| In-Kind Contributions (Note 1) | 19,822 | 64,443,282 |
| | <u>\$ 4,978,204</u> | <u>\$ 72,775,078</u> |

(11) Net Assets With Donor Restrictions - Perpetual

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Scholarships and Fellowships | \$ 44,221,873 | \$ 41,139,064 |
| General Student Assistance | 2,263,169 | 2,198,490 |
| General Support to SDSM&T | 22,024,384 | 18,320,853 |
| Pledge Donations - Determined by Donor at Later Date | 1,804,938 | 1,840,156 |
| | <u>\$ 70,314,364</u> | <u>\$ 63,498,563</u> |

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

(12) Endowed Net Assets

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

The Board of Directors of the Foundation has interpreted the State of South Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions – perpetual (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions – perpetual is classified as net assets with donor restrictions - purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020 AND 2019

(12) Endowed Net Assets (Continued)

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

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effects of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the foundation;
- The investment policies of the foundation.

The following represents endowment net asset composition by type of fund as of June 30, 2020 and 2019:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | | <u>Total</u> |
|---|---------------------------------------|--------------------------------|----------------------|----------------------|
| | | <u>Purpose</u> | <u>Perpetual</u> | |
| Donor Restricted Endowment Funds | \$ - | \$ 5,494,938 | \$ 63,498,563 | \$ 68,993,501 |
| Donor Purpose Restricted and Board Endowed | - | 931,359 | - | 931,359 |
| Endowment Assets - June 30, 2019 | - | 6,426,297 | 63,498,563 | 69,924,860 |
| Donor Restricted Endowment Funds | - | 5,979,513 | 70,314,364 | 76,293,877 |
| Donor Purpose Restricted and Board Endowed | - | 899,926 | - | 899,926 |
| Endowment Assets - June 30, 2020 | \$ - | \$ 6,879,439 | \$ 70,314,364 | \$ 77,193,803 |

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | | <u>Total</u> |
|---|---------------------------------------|--------------------------------|----------------------|----------------------|
| | | <u>Purpose</u> | <u>Perpetual</u> | |
| Endowment Assets - June 30, 2018 | \$ - | \$ 5,814,641 | \$ 59,729,619 | \$ 65,544,260 |
| Net Investment Return | - | 2,084,139 | 886,025 | 2,970,164 |
| Net Investment Return on Trusts/Annuities | - | - | 93,757 | 93,757 |
| Contributions | - | - | 2,789,162 | 2,789,162 |
| Appropriation for Expenditure | - | (1,472,483) | - | (1,472,483) |
| Endowment Assets - June 30, 2019 | - | 6,426,297 | 63,498,563 | 69,924,860 |
| Net Investment Return | - | 2,107,696 | 169,647 | 2,277,343 |
| Net Investment Return on Trusts/Annuities | - | - | (84,872) | (84,872) |
| Contributions | - | - | 6,731,026 | 6,731,026 |
| Appropriation for Expenditure | - | (1,654,554) | - | (1,654,554) |
| Endowment Assets - June 30, 2020 | \$ - | \$ 6,879,439 | \$ 70,314,364 | \$ 77,193,803 |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

(12) Endowed Net Assets (Concluded)

The Foundation has adopted investment and spending policies for endowment assets that attempt to maximize support while growing the endowment's principal value to maintain spending value compared to appropriate inflationary indexes. To achieve these goals, the Foundation Board annually authorizes spending and accumulation allocations that are transferred to each funding account. Spending allocations for fiscal years 2020 and 2019 were based on a 12-quarter rolling fund average. Total earnings are spread based on the beginning of the quarter fund balance. The Foundation allocates a portion of total earnings to the perpetual endowment and the remainder to the donor restricted – purpose endowment consistent with the standard of prudence prescribed by UPMIFA.

(13) Liquidity

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

As described in Note 12, the Foundation's endowments are subject to annual spending rates and allocations authorized by the Foundation Board. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The table below presents financial assets available for general expenditures within one year at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| <i>Financial Assets at year end:</i> | | |
| Cash and Cash Equivalents | \$ 12,830,855 | \$ 3,262,838 |
| Unconditional Promises to Give | 2,984,184 | 3,301,296 |
| Investments | 76,846,433 | 79,170,113 |
| Total Financial Assets | \$ 92,661,472 | \$ 85,734,247 |
| <i>Less amounts not available to be used within one year:</i> | | |
| Net Assets with Donor Restriction | \$ 91,497,328 | \$ 83,681,197 |
| Donor Restricted Net Assets Include: | | |
| Rental Real Estate | (3,687,612) | (3,662,244) |
| Other Assets included in Trust and CGA Investments | (3,123) | (19,961) |
| Financial Assets Not Available to be Used Within One Year | \$ 87,806,593 | \$ 79,998,992 |
| Financial Assets Available to Meet General Expenditures Within One Year | \$ 4,854,879 | \$ 5,735,255 |

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2020 AND 2019

(14) Refundable Advance

The Foundation was granted a \$244,100 loan under the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA) from a qualified lender. The loan is uncollateralized and is fully guaranteed by the SBA. The Foundation may be eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements.

Because the Foundation anticipates forgiveness, this is considered a conditional contribution and funds received in advance of meeting the conditions are recorded as a refundable advance. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. In addition, other requirements regarding salary and employee levels must be maintained. For any portion of the loan not forgiven, repayments begin in October 2021. Monthly payments of \$5,600, including interest at 1 percent, would commence October 2021 and be required through June 2025.

(15) Subsequent Events and Acquisition

The Foundation has evaluated significant subsequent events through October 12, 2020, the date which the financial statements were available to be issued.

On July 1, 2020, the Foundation changed their legal name to the Center for Alumni Relations and Advancement (CARA).

Additionally, effective July 1, 2020, CARA acquired all assets and liabilities of the South Dakota School of Mines and Technology Alumni Association, Inc. (the Association). The acquisition occurred to align objectives and combine resources of the two entities to better promote and support the SDSM&T. The transaction has been accounted for under acquisition accounting whereby the identifiable assets acquired, and liabilities assumed will be adjusted to their fair value and result in a contribution from the Association to CARA. Accordingly, there was no cash consideration transferred between entities. The final fair value allocation of assets and liabilities is not final as of the date of this report.

(16) Current Economic Events

The Foundation has been impacted by the world-wide coronavirus pandemic. The Foundation's revenue consists primarily of contributions and investment income. Its ability to fund programs and support its operations is significantly dependent on the receipt of contributions and the value of the investments that it manages. Investment values can fluctuate widely based on many factors, including investment performance and difficult market conditions, which can also impact the ability of donors to contribute to the Foundation. The continued decline and volatility of the equity, credit, and labor markets resulting from the coronavirus pandemic could have a significant impact on the value of the Foundation's investments and its receipt of contributions.

The Foundation is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Foundation's financial position is not known.