



**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

**BLACK HILLS STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

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**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Reporting Entity

This discussion and analysis provides an overview of the financial position and performance of Black Hills State University (the University/BHSU) for the fiscal year ended June 30, 2018. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes. The accuracy of the financial statements, note disclosures, and discussion are the responsibility of University management.

The University is one of six public universities and two special schools under the control of the South Dakota Board of Regents. As a constitutionally established entity, the Board of Regents is responsible for the governance policy for each institution within the South Dakota Public System (the System).

Based on the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, it has been determined the Board of Regents is a component unit of the State of South Dakota (the State). The University's financial operations are audited as part of the State through the Board of Regents, therefore an individual audit opinion is not issued but is included in the audit opinion of the State's Comprehensive Annual Financial Report (CAFR).

The University is a comprehensive, regional university located in Spearfish, SD, in the heart of the scenic northern Black Hills. The location provides the ideal environment for combining outdoor recreational and collegiate educational opportunities in a small-town setting. BHSU offers academic programs at the associate's, bachelor's and master's degree levels.

The Black Hills State University Foundation (the Foundation) is a component unit of the University. The University does not control the timing or amounts of receipts from the Foundation. However, a majority of resources or income the Foundation holds and invests are restricted by the donors for the University's activities. Independent auditors, engaged by the Foundation's Board of Directors, audit the Foundation's financial statements and related notes which are included in this report.

Mission Statement

Black Hills State University is a master's level university that promotes excellence in teaching and learning; supports research, creative and scholarly activities and provides service to the state, region, nation, and global community. BHSU provides innovative, high quality undergraduate programs in the arts, humanities, education, behavioral sciences, mathematics, social sciences, natural sciences, business and technology as well as selected disciplines of strength at the graduate level. Black Hills State University is the only comprehensive University in western South Dakota.

The Board of Regents implemented SDCL 13-59-1 by authorizing undergraduate and graduate programs in the liberal arts and sciences and in professional education, to promote excellence in teaching and learning, to support research, scholarly and creative activities, and to provide service to the State of South Dakota and the region.

Vision Statement

Black Hills State University will be the region's leading university in undergraduate research and sustainability whose graduates will enact global change through leadership, stewardship, and scholarship.

Values

As member of the Black Hills State University community, we value:

- Student Success
- Academic Excellence
- Innovation
- Authenticity

Strategic Goals

We will INSPIRE and support student success from recruitment to graduation.

BHSU has graduated record number of students the past eight years with an average of 604 graduates per year. Fall headcount enrollment declined to 4,178 in 2018 from 4,244 in 2017. Black Hills State University – Rapid City Fall enrollment was 1,072 in 2018 and 1,079 in 2017. Dual credit students increased to 495 in 2018 from 369 in 2017. First to second year retention increased from 63% in 2017 to 70% in 2018.

We will ENGAGE the BHSU community in partnerships, service and enriched student experiences

Housing occupancy increased to 94% in 2018 from 89% in 2017. Renovations are continuing in the Yellow Jacket Apartments to modernize the residences and make them more appealing to students. The number of student organizations and clubs increased from 82 to 85.

We will provide INNOVATIVE learning experiences that facilitate academic achievement, research, creative activity and civic engagement.

Class size remained at 20:1 for 2018. The University increased awards to Honors students to \$251,000 in 2018 from \$115,198 in 2017; increased awards to student athletes from \$824,000 in 2017 to \$1,044,000 in 2018; and increased the dollars raised for the presidential Medallion scholarships from \$10,875 in 2017 to \$16,272 in 2018.

We will develop and expand internal and external resources to support all we can IMAGINE.

The number of donors decreased slightly in 2018 to 2,106 from 2,322 in 2017. However, the BHSU Foundation endowments increased to \$18.5 million in 2018 from \$18.2 million in 2017. The number of trees planted, maintained, and donated increased to 1,503 in 2018 from 1,275 in 2017 as the University continued to respond to a loss of approximately one-third of its tree resources from the Storm Atlas blizzard in 2013.

Using the Annual Report

The financial statements have been prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. Statements required include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

The University provided analysis of major variances that occurred between fiscal years 2018 and 2017, as well as information regarding capital assets, debt administration, and an economic outlook. The management’s discussion and analysis focuses on the University’s operations, excluding the Foundation.

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights

Statement of Net Position

The Statement of Net Position presents the University's financial position at the end of the fiscal year, including all assets and liabilities. Net position, the result of total assets minus total liabilities, is one indicator of the current financial condition of the system. Assets, deferred outflows, and liabilities are reported at cost or fair market value, less accumulated depreciation or amortization.

Condensed Statements of Net Position

Assets	2018	2017
Current Assets	\$ 15,324,921.34	\$ 16,153,010.37
Non-Current Assets	87,273,920.79	90,078,985.27
Total Assets	\$ 102,598,842.13	\$ 106,231,995.64
Deferred Outflows of Resources	\$ 74,270.16	\$ 79,147.29
Total Assets and Deferred Outflows of Resources	\$ 102,673,112.29	\$ 106,311,142.93
Liabilities		
Current Liabilities	\$ 3,769,783.49	\$ 4,219,496.54
Non-Current Liabilities	19,590,735.67	20,331,216.86
Total Liabilities	\$ 23,360,519.16	\$ 24,550,713.40
Net Position		
Net Investment in Capital Assets	\$ 69,470,116.69	\$ 71,179,456.00
Restricted	1,728,543.06	1,872,390.00
Unrestricted	8,113,933.38	8,708,583.53
Total Net Position	\$ 79,312,593.13	\$ 81,760,429.53
Total Liabilities and Net Position	\$ 102,673,112.29	\$ 106,311,142.93

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Continued)

Statements of Net Position (Continued)

Substantially all of the construction projects in 2018 were put into service in the current year. Upgrades to the apartments are continuing and a project to renovate the walkway near the Wenona-Cook Residence Hall was just beginning at the end of fiscal year 2018. The University's largest asset is its investment in Buildings & Building Improvements which represents approximately \$72 million of non-current assets.

Construction in Progress

	2018		2017
EY Berry Library Renovation	\$ -	\$	459,464.29
Apartments Upgrade	694,643.85		434,164.71
Football Turf and Fencing	-		296,694.00
BHSU-RC Classroom Upgrade	-		67,085.27
Bookstore Renovation	-		27,538.72
Wenona Cook Walkway	540.60		-
Total Construction in Progress	\$ 695,184.45	\$	1,284,946.99

Capital Assets, Net Accumulated Depreciation

	2018		2017
Land	\$ 234,350.00	\$	234,350.00
Building & Building Improvements, Net	71,897,361.55		74,115,029.18
Land Improvements, Net	3,964,586.16		3,043,493.13
Infrastructure, Net	5,761,282.51		6,190,145.13
Equipment & Other Property, Net	3,136,355.16		3,594,858.61
Total Capital Assets, Net	\$ 84,993,935.38	\$	87,177,876.05

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Continued)

Statements of Net Position (Continued)

Non-Current Liabilities decreased primarily from debt repayments. Bonds payable is the University's largest liability totaling \$16,293,273.30.

Non-Current Liabilities

	2018	2017
2014B Revenue Bond	\$ 1,477,569.48	\$ 1,637,751.78
2014A Revenue Bond	8,925,703.82	9,389,762.55
2007 Revenue Bond	5,245,000.00	5,620,000.00
2006 Revenue Bond	645,000.00	715,000.00
Total Bonds Payable	16,293,273.30	17,362,514.33
Compensated Absences Payable	2,743,889.85	2,291,379.91
Federal Capital Contribution Refundable Advance	2,508,921.00	2,570,248.00
Total Non-Current Liabilities	\$ 21,546,084.15	\$ 22,224,142.24
Due Within One Year	\$ 1,955,348.48	\$ 1,892,925.38

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the University's operations. Revenues and expenses are classified as either operating or non-operating, with State Appropriations classified as non-operating revenues. Operating expenses increased in 2018 as the University used one-time investments in cash to fund new initiatives to increase recruiting and retention. These expenses can be seen as the increase in contractual expenses and travel on page 7. The financial statements for 2017 and 2018 also include over \$4 million in depreciation expense, which is the amortization of the cost of capital assets over their estimated useful life.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	2017
Total Operating Revenues	\$ 33,686,387.10	\$ 34,433,144.66
Total Operating Expenses	(52,151,522.92)	(50,712,513.40)
Operating Loss	\$ (18,465,135.82)	\$ (16,279,368.74)
Non-Operating Revenues and Expenses	\$ 15,085,669.66	\$ 13,805,466.13
Other Revenues	1,363,307.20	2,907,777.21
Total Increase in Net Position	\$ (2,016,158.96)	\$ 433,874.60
Net Position - Beginning of the year	\$ 81,760,429.53	\$ 80,067,728.62
Prior Period Adjustments	(431,677.44)	1,258,826.31
Net Position - End of the year	\$ 79,312,593.13	\$ 81,760,429.53

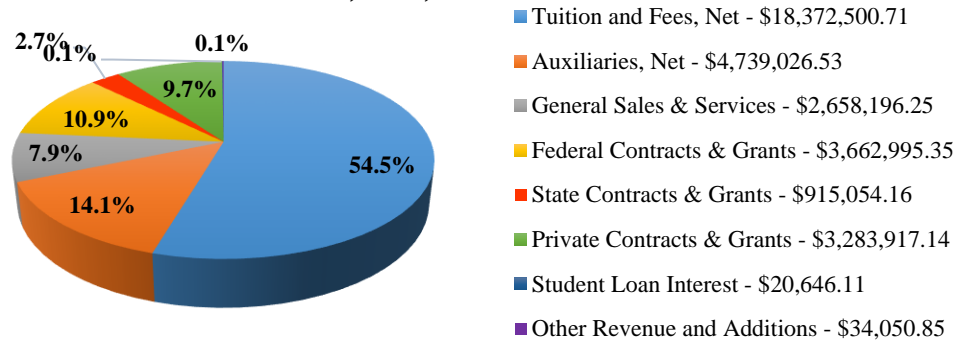
**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Total Operating Revenues decreased approximately \$743,805, primarily from Net Tuition and Fees as enrollment decreased. Revenue for Contracts and Grants also decreased from 2017 to 2018. The slight uptick in State Contracts and Grants was more than offset by the decline in Federal and Private Contracts and Grants.

**FY18 Operating Revenues
\$33,686,387.10**



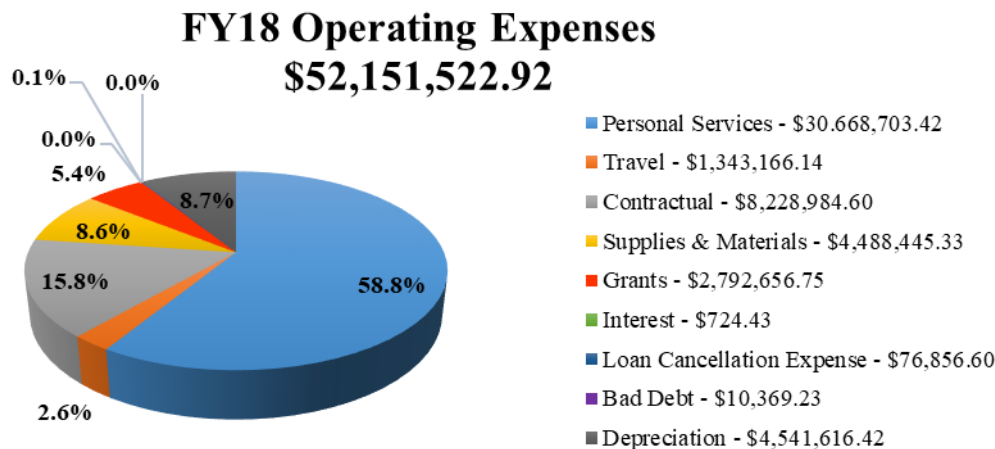
Operating Revenues	2018	2017	Increase (Decrease)
Tuition and Fees, Net	\$ 18,372,500.71	\$ 18,877,459.74	\$ (504,959.03)
Auxiliaries, Net	4,739,026.53	4,643,828.26	95,198.27
General Sales & Services	2,658,196.25	2,817,547.44	(159,351.19)
Federal Contracts & Grants	3,662,995.35	3,892,827.05	(229,831.70)
State Contracts & Grants	915,054.16	806,145.43	108,908.73
Private Contracts & Grants	3,283,917.14	3,371,773.81	(87,856.67)
Student Loan Interest	20,646.11	23,562.93	(2,916.82)
Other Revenue and Additions	34,050.85	-	34,050.85
Total Operating Revenues	\$ 33,686,387.10	\$ 34,433,144.66	\$ (746,757.56)

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Total Operating Expenses increased approximately \$1.4 million. Payroll services increased approximately \$500,000 mostly for Academic Support and Auxiliaries. Travel and contractual expenses increased as the University used one-time investments to fund new initiatives to increase recruiting and retention.



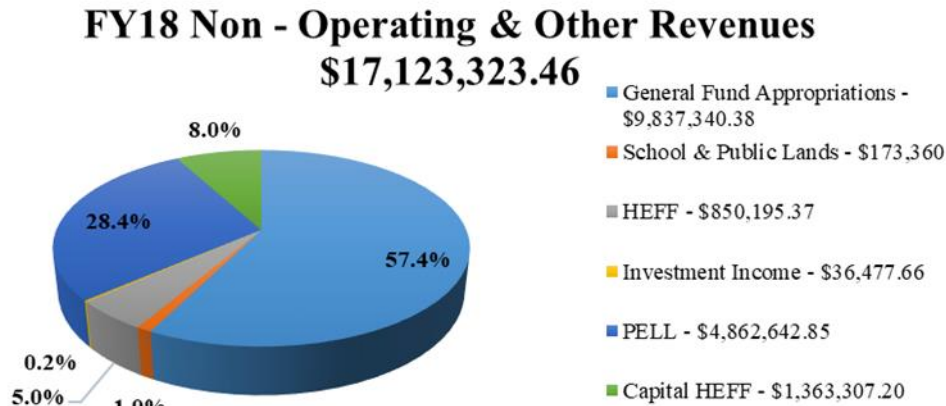
Operating Expenses	2018	2017	Increase (Decrease)
Personal Services	\$ 30,668,703.42	\$ 30,169,695.05	\$ 499,008.37
Travel	1,343,166.14	1,110,730.00	232,436.14
Contractual	8,228,984.60	7,334,593.69	894,390.91
Supplies & Materials	4,488,445.33	4,422,501.14	65,944.19
Grants	2,792,656.75	2,756,702.10	35,954.65
Interest	724.43	789.16	(64.73)
Loan Cancellation Expense	76,856.60	38,962.55	37,894.05
Bad Debt	10,369.23	399,252.23	(388,883.00)
Depreciation	4,541,616.42	4,479,287.48	62,328.94
Total Operating Expenses	\$ 52,151,522.92	\$ 50,712,513.40	\$ 1,439,009.52

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Concluded)

Other Revenues decreased roughly \$678,000. There were no funds provided by the South Dakota Building Authority in 2018. This decrease was partially offset by an increase in PELL and the slight increase in General Fund Appropriations.



Non-Operating & Other Revenues	2018	2017	Increase (Decrease)
General Fund Appropriations	\$ 9,837,340.38	\$ 9,707,374.00	\$ 129,966.38
School & Public Lands	173,360.00	173,360.00	-
HEFF	850,195.37	525,618.20	324,577.17
Investment Income	36,477.66	95,222.30	(58,744.64)
PELL	4,862,642.85	4,392,542.24	470,100.61
Capital HEFF	1,363,307.20	1,913,910.44	(550,603.24)
South Dakota Building Authority Capital Financing	-	993,866.77	(993,866.77)
Capital Contracts & Grants	-	-	-
Total Non-Operating & Other Revenues	\$ 17,123,323.46	\$ 17,801,893.95	\$ (678,570.49)

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Highlights (Concluded)

Statements of Cash Flows

The Statements of Cash Flows presents information related to cash inflows and outflows. These transactions are classified as operating, non-operating, capital, and investing activities. These statements help measure the ability of the University to meet financial obligations as they mature.

Condensed Statements of Cash Flows

Net Cash Provided/(Used) by	2018	2017
Operating Activities	\$ (13,948,519.81)	\$ (11,744,747.39)
Non-Operating Activities	15,158,949.35	13,876,154.66
Capital Related Activities	(2,195,370.00)	(2,676,769.38)
Investing Activities	96,319.94	108,030.08
Net Decrease in Cash	(888,620.52)	(437,332.03)
Cash - Beginning of the year	12,676,919.23	13,114,251.26
Cash - End of the year	\$ 11,788,298.71	\$ 12,676,919.23

The University's cash decreased approximately \$888,000 from 2017. The Football Turf and Fencing project was substantially completed in 2018 and the apartments upgrade is continuing in fiscal year 2019. There was a large decrease in tuition and fees revenue from 2017.

Outlook for FY19 and Beyond

Overall, the University budgets available resources according to the strategic plan in a manner that keeps the priority on the instructional programs to maintain and improve the high quality degrees offered. Although enrollment continued to decline, the University is positioned well for fiscal year 2019 and beyond under the leadership of President, Thomas Jackson, Jr. Budgets are adjusted each year to reflect the projected revenues, ensuring a strong financial position. The academic programs are strong as evidenced with reaccreditation by the Higher Learning Commission and specialized programs.

Black Hills State University
Statements of Net Position
June 30, 2018 and 2017

Assets	2018	2017
<u>Current Assets</u>		
Cash & Cash Equivalents on Deposit - State Treasurer	\$ 11,716,390.51	\$ 12,595,961.33
Cash	71,180.54	80,957.90
Accounts Receivable - Students	832,242.60	728,018.34
Allowance for Doubtful Accounts - Students	(135,136.44)	(113,873.29)
Accounts Receivable - Department Sales	110,567.75	47,029.17
Notes Receivable	249,276.50	251,160.14
Interest Receivable	47,062.71	106,904.99
Inventory	844,366.92	836,008.94
Due from Federal Sources	1,101,142.38	1,488,722.85
Due from Primary Government	349,927.51	2,615.56
Due from Other Component Units	137,900.36	129,504.44
Total Current Assets	\$ 15,324,921.34	\$ 16,153,010.37
<u>Non-Current Assets</u>		
Restricted Cash & Cash Equivalents on Deposit - State Treasurer	\$ 727.66	\$ -
Notes Receivable	1,584,073.30	1,616,162.23
Capital Assets:		
Land	234,350.00	234,350.00
Construction in Progress	695,184.45	1,284,946.99
Building & Building Improvements	107,288,597.95	106,569,035.99
Accumulated Depreciation - Building & Building Improvements	(35,391,236.40)	(32,454,006.81)
Land Improvements	7,104,706.95	5,701,361.20
Accumulated Depreciation - Land Improvements	(3,140,120.79)	(2,657,868.07)
Infrastructure	10,951,334.84	10,951,334.83
Accumulated Depreciation - Infrastructure	(5,190,052.33)	(4,761,189.70)
Equipment & Other Property	14,540,112.30	14,305,344.26
Accumulated Depreciation - Equipment & Other Property	(11,403,757.14)	(10,710,485.65)
Total Non-Current Assets	\$ 87,273,920.79	\$ 90,078,985.27
<u>Deferred Outflows</u>		
Loss on Debt Refinancing	\$74,270.16	\$79,147.29
Total Assets and Deferred Outflows	\$ 102,673,112.29	\$ 106,311,142.93

Black Hills State University
Statements of Net Position
June 30, 2018 and 2017

Liabilities	2018	2017
<u>Current Liabilities</u>		
Accounts Payable	\$ 351,280.45	\$ 584,440.81
Accrued Wages & Benefits	597,899.68	649,202.55
Accrued Interest Payable	172,653.75	182,777.25
Student Deposits	133,950.00	115,340.00
Agency Funds - Funds Held For Others	24,307.43	33,457.02
Unearned Revenue	34,474.69	36,523.67
Due to Primary Government	26,123.27	25,727.46
Due to Other Component Units	473,745.74	699,102.40
Compensated Absences Payable - Current Portion	856,107.75	823,684.65
Bonds Payable, Net Premium - Current Portion	1,099,240.73	1,069,240.73
Total Current Liabilities	\$ 3,769,783.49	\$ 4,219,496.54
<u>Non-Current Liabilities</u>		
Compensated Absences Payable - Non-Current	\$ 1,887,782.10	\$ 1,467,695.26
Bonds Payable, Net Premium - Non-Current	15,194,032.57	16,293,273.60
Federal Capital Contribution Refundable Advance	2,508,921.00	2,570,248.00
Total Non-Current Liabilities	\$ 19,590,735.67	\$ 20,331,216.86
Total Liabilities	\$ 23,360,519.16	\$ 24,550,713.40
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 69,470,116.69	\$ 71,179,456.00
Restricted		
Expendable		
Debt Service	727.66	-
Other	1,727,815.40	1,872,390.00
Unrestricted	8,113,933.38	8,708,583.53
Total Net Position	\$ 79,312,593.13	\$ 81,760,429.53
Total Liabilities and Net Position	\$ 102,673,112.29	\$ 106,311,142.93

The accompanying notes to the University financial statements are an integral part to these statements.

Black Hills State University Foundation
Statement of Financial Position
December 31, 2017

ASSETS	
Cash and Cash Equivalents	\$ 867,689
Short-term Investments	927,542
Prepaid Expenses	6,607
Pledges Receivable, Net of Allowance and Discount	132,665
Related-party Note Receivable	11,839
Investments	18,477,574
Cash Surrender Value of Life Insurance	1,357,036
Collections	44,895
Property and Equipment, Net	<u>2,989,159</u>
TOTAL ASSETS	<u>\$ 24,815,006</u>
LIABILITIES	
Accounts Payable	\$ 110,136
Amounts Held for Others	2,472,109
Deferred Revenue	21,000
Annuity Liability	297,854
Long-term Debt	<u>630,732</u>
TOTAL LIABILITIES	<u>3,531,831</u>
NET ASSETS	
Unrestricted - Undesignated	450,907
Unrestricted - Board-designated	1,000,000
Temporarily Restricted	7,526,272
Permanently Restricted	<u>12,305,996</u>
TOTAL NET ASSETS	<u>21,283,175</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,815,006</u>

See accompanying notes and independent auditor's report.

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2018 and 2017

Operating Revenues	2018	2017
<u>Tuition</u>		
State support	\$ 8,053,737.91	\$ 8,239,403.45
Self support	10,705,499.94	12,651,290.25
Total Tuition	\$ 18,759,237.85	\$ 20,890,693.70
<u>Fees</u>		
General Activity Fee	\$ 1,561,286.44	\$ 1,488,794.87
Special Discipline Fees	111,642.24	523,573.95
Vehicle Registration	142,501.82	146,231.64
Other Fees	265,032.56	91,021.96
Charges	228,324.42	180,064.46
Total Fees	\$ 2,308,787.48	\$ 2,429,686.88
Total Tuition and Fees	\$ 21,068,025.33	\$ 23,320,380.58
Student Financial Assistance	(4,877,866.19)	(4,442,920.84)
Total Tuition and Fees, Net of Student Financial Assistance	\$ 16,190,159.14	\$ 18,877,459.74
Auxiliaries	\$ 6,396,073.69	\$ 6,103,756.43
Scholarship Allowance	(1,657,047.16)	(1,459,928.17)
Auxiliaries, Net Scholarship Allowance	4,739,026.53	4,643,828.26
General Sales & Services	2,658,196.25	2,817,547.44
Contracts & Grants		
Federal	3,662,995.35	3,892,827.05
State	915,054.16	806,145.43
Private	3,283,917.14	3,371,773.81
Student Loan Interest	20,646.11	23,562.93
Other Revenue & Additions	34,050.85	-
Total Operating Revenues	\$ 31,504,045.53	\$ 34,433,144.66
<u>Operating Expenses</u>		
Personal Services	\$ (30,668,703.42)	\$ (30,169,695.05)
Travel	(1,343,166.14)	(1,110,730.00)
Contractual	(6,877,657.69)	(7,334,593.69)
Supplies & Materials	(3,657,430.67)	(4,422,501.14)
Grants	(2,792,656.75)	(2,756,702.10)
Interest	(724.43)	(789.16)
Loan Cancellation Expense	(76,856.60)	(38,962.55)
Bad Debt	(10,369.23)	(399,252.23)
Depreciation	(4,541,616.42)	(4,479,287.48)
Total Operating Expenses	\$ (49,969,181.35)	\$ (50,712,513.40)

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2018 and 2017

	2018	2017
Operating Loss	\$ (18,465,135.82)	\$ (16,279,368.74)
<u>Non-Operating Revenues (Expenses)</u>		
General Fund Appropriations	\$ 9,837,340.38	\$ 9,707,374.00
School & Public Lands	173,360.00	173,360.00
HEFF	850,195.37	525,618.20
Investment Income	36,477.66	95,222.30
Interest on Capital Assets	(674,346.60)	(712,559.01)
Loss on Disposal of Asset	-	(376,091.60)
PELL	4,862,642.85	4,392,542.24
Total Non-Operating Revenues (Expenses)	\$ 15,085,669.66	\$ 13,805,466.13
Loss Before Capital Contributions	\$ (3,379,466.16)	\$ (2,473,902.61)
<u>Capital Contributions</u>		
Capital Contracts & Grants	\$ -	\$ -
HEFF	1,363,307.20	1,913,910.44
South Dakota Building Authority Capital Financing	-	993,866.77
Total Capital Contributions	\$ 1,363,307.20	\$ 2,907,777.21
Increase in Net Position	\$ (2,016,158.96)	\$ 433,874.60
Net Position, Beginning of Year	\$ 81,760,429.53	\$ 80,067,728.62
Prior Period Adjustments	\$ (431,677.44)	1,258,826.31
Net Position, End of Year	\$ 79,312,593.13	\$ 81,760,429.53

The accompanying notes to the University financial statements are an integral part to these statements.

Black Hills State University Foundation
Statement of Activities
For the Year Ended December 31, 2017

UNRESTRICTED NET ASSETS

Revenues and Other Support:	
Contributions	\$ 1,086,922
Rental Income	54,110
Management Fee	38,667
Emergency Loan Fees	501
Interest Income	<u>832</u>

Total Revenues and Other Support 1,181,032

Reclassifications of Net Assets	(39,763)
Net Assets Released From Restrictions	<u>1,683,834</u>

Total Support and Reclassifications 2,825,103

Expenses:

Program Services:	
Scholarships and Awards	860,521
University Support	460,103
Alumni Association	52,921
Presidential Support	43,851
Supporting Services:	
Management and General	113,525
Fundraising	<u>186,195</u>

Total Expenses 1,717,116

CHANGE IN UNRESTRICTED NET ASSETS 1,107,987

TEMPORARILY RESTRICTED NET ASSETS

Contributions	420,943
Grants	185,857
Increase in Cash Surrender Value of Life Insurance	83,113
Investment Gains	1,746,338
Miscellaneous Income	356
Reclassifications of Net Assets	38,263
Net Assets Released From Restrictions	<u>(1,683,834)</u>

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS 791,036

See the accompanying notes and independent auditor's report.

PERMANENTLY RESTRICTED NET ASSETS	
Contributions	1,014,615
Reclassifications of Net Assets	<u>1,500</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>1,016,115</u>
CHANGE IN NET ASSETS	2,915,138
NET ASSETS, BEGINNING	<u>18,368,037</u>
NET ASSETS, ENDING	<u>\$ 21,283,175</u>

See the accompanying notes and independent auditor's report.

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

Cash Flows from Operating Activities	2018	2017
Tuition and Fees, Net of Student Financial Assistance	\$ 16,096,828.80	\$ 18,790,793.98
Auxiliaries, Net Scholarship Allowance	4,685,761.38	4,682,372.61
General Sales & Services	2,658,196.25	2,817,547.44
Federal Contracts & Grants	3,662,995.35	3,693,056.81
State Contracts & Grants	946,926.76	758,861.04
Private Contracts & Grants	3,281,868.16	3,087,411.61
Other Revenue and Additions	34,050.85	-
Loans Issued to Students	(261,949.33)	(224,300.00)
Loans Collected from Students	219,065.30	255,177.50
Student Loan Interest	20,646.11	23,562.93
Payments for Personal Services	(30,380,151.23)	(30,305,664.57)
Payments for Travel	(1,366,635.43)	(1,110,730.00)
Payments for Contractual	(7,115,671.30)	(7,105,406.37)
Payments for Supplies & Materials	(3,637,070.30)	(4,349,939.11)
Payments for Grants	(2,792,656.75)	(2,756,702.10)
Payments for Other Expenditures	(724.43)	(789.16)
Net Cash Flows from Operating Activities	\$ (13,948,519.81)	\$ (11,744,747.39)
Cash Flows from Non-Operating Activities		
General Fund Appropriations	\$ 9,837,340.38	\$ 9,707,374.00
School & Public Lands	173,360.00	173,360.00
HEFF	850,195.37	525,618.20
Federal Loan Disbursements	(14,477,906.00)	(14,862,048.00)
Federal Loan Receipts	14,477,906.00	14,862,048.00
Federal Capital Contribution - Student Loan	(61,327.00)	(220,331.00)
Net Change in Funds Held for Others	(234,506.25)	(525,823.78)
PELL	4,862,642.85	4,392,542.24
Payments for Other Expenditures	(268,756.00)	(176,585.00)
Net Cash Flows from Non-Operating Activities	\$ 15,158,949.35	\$ 13,876,154.66
Cash Flows from Capital Related Activities		
HEFF	\$ 1,363,307.20	\$ 1,913,910.44
South Dakota Building Authority Financing	-	993,866.77
Revenue Bond Discounts and Related Costs	4,877.13	4,877.13
Principal Paid on Capital Debt	(1,025,000.00)	(980,000.00)
Interest Paid on Capital Debt	(728,711.13)	(766,478.44)
Purchase of Capital Assets	(1,809,843.20)	(3,842,945.28)
Net Cash Flows from Capital Related Activities	\$ (2,195,370.00)	\$ (2,676,769.38)
Cash Flows from Investing Activities		
Investment Income	\$ 96,319.94	\$ 108,030.08
Net Decrease in Cash	\$ (888,620.52)	\$ (437,332.03)
Cash - Beginning of the year	12,676,919.23	13,114,251.26
Cash - End of the year	\$ 11,788,298.71	\$ 12,676,919.23

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Net Operating Revenues (Expenses)		
to Net Cash from Operating Activities		
Operating Loss	\$ (18,465,135.82)	\$ (16,279,368.74)
Adjustments to Reconcile Operating Loss to Net Cash		
from Operating Activities:		
Depreciation Expense	4,541,616.42	4,479,287.48
Bad Debt Expense	10,369.23	399,252.23
Loan Cancellation Expense	76,856.60	38,962.55
Changes in Assets and Liabilities		
Accounts Receivable - Students	(93,330.34)	(86,665.76)
Accounts Receivable - Department Sales	(71,875.15)	5,559.35
Notes Receivables	(42,884.03)	30,877.50
Due From Federal Sources	387,580.47	(199,770.24)
Due From Primary Government	(347,311.95)	(1,146.01)
Due From Other Component Units	(8,395.92)	(46,138.38)
Inventory	(8,357.98)	(35,979.65)
Accounts Payable	(233,160.36)	336,751.42
Accrued Wages & Benefits	217,453.13	165,046.22
Due to Primary Government	395.81	977.58
Student Deposits	18,610.00	32,985.00
Compensated Absences Payable	71,099.06	(301,015.74)
Unearned Revenue	(2,048.98)	(284,362.20)
Net Cash Used by Operating Activities	\$ (13,948,519.81)	\$ (11,744,747.39)
Noncash Activities		
Loss on Accounts Written Off	\$ -	\$ 615,343.80
Loss on Disposal of Asset	\$ -	\$ 376,091.60

The accompanying notes to the University financial statements are an integral part to these statements.

Black Hills State University Foundation
Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Donors	\$ 1,888,161
Rent Receipts	56,455
Other Operating Cash Receipts	39,524
Interest Receipts	347,173
Interest Paid	(35,276)
Cash Payments to Suppliers of Goods and Services	<u>(1,631,340)</u>
Net Cash Provided by Operating Activities	<u>664,697</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Change in Amounts Held for Others	294,330
Receipts on Related-party Notes Receivable	11,427
Purchase of Property and Equipment	(9,543)
Purchases of Investments	(1,189,549)
Proceeds from Sales of Investments	<u>146,010</u>
Net Cash Used by Investing Activities	<u>(747,325)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contributions Restricted to Permanent Endowment	982,015
Payments on Loan Against Cash Surrender Value of Life Insurance	(35,000)
Payments on Annuity Liability	(96,759)
Advances on Annuity Liability	20,000
Principal Paid on Long-term Debt	<u>(22,972)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>847,284</u>
Increase in Cash and Cash Equivalents	764,656
CASH AND CASH EQUIVALENTS - BEGINNING	<u>103,033</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 867,689</u>

See the accompanying notes and independent auditor's report.

**RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Change in Net Assets	\$ 2,915,138
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	81,166
Net Realized and Unrealized Gains on Investments	(1,477,888)
Contributions Restricted to Permanent Endowment	(982,015)
Increase in Cash Surrender Value of Life Insurance Policy	(83,113)
Change in Assets and Liabilities:	
Accounts Receivable	2,345
Prepaid Expenses	(420)
Pledges Receivable	127,911
Accounts Payable	<u>81,573</u>
Net Cash Provided by Operating Activities	<u>\$ 664,697</u>

See the accompanying notes and independent auditor's report.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

(1) Summary of Significant Accounting Policies

Reporting Entity

Black Hills State University (the University/BHSU) is a public institution of higher education under the governance of South Dakota Board of Regents. The Board of Regents combines the financial statements of six public universities and two special schools to be presented as a component unit (Higher Education) in the State of South Dakota Comprehensive Annual Financial Report (CAFR).

The Black Hills State University Foundation (the Foundation) is a legally separate, tax exempt component unit of the University. The Foundation acts primarily as a fundraising organization to supplement resources for University programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income the Foundation holds and invests are restricted for activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the year ended June 30, 2018, the University received \$906,480.86 from the Foundation for both restricted and unrestricted purposes.

Basis of Presentation

The University's financial statements, the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows, have been prepared in accordance with the generally accepted accounting principles (GAAP) 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*. In accordance with Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation's financial statements are discretely presented in their original format following the University's financial statements. The Foundation is reported under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Basis of Accounting

The University is considered a special purpose government entity engaged in business type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Interdepartmental charges are treated as a transfer of expense.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash in local banks, and cash on hand. Cash and Cash Equivalents on Deposit – State Treasurer include cash and investments with original maturities of three months or less which are reported at fair market value.

Restricted Cash

Restricted Cash on Deposit - State Treasurer is a bond sinking fund for the 2014B, 2014A, 2007, and 2006 revenue bonds.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(1) Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts Receivable includes funds owed from students for outstanding tuition and fee charges as well as funds owed to University departments from external sources for various sales and services. The University uses the allowance method for calculating uncollectible accounts receivable. Under this method, a reserve is established for the projected amount that will become uncollectible and has been computed based on the following aging schedule:

<u>Age</u>	<u>Allowance Percentage</u>
1 year	5
2 years	20
3 years	25
4 years	30
5 years	40
Over 5 years	100

Notes Receivable

Notes Receivable consists of receivables associated with the Perkins Loan Program. When Perkins loans are deemed uncollectible, they are assigned to the Department of Education. The University uses the direct write-off method for any uncollectible accounts.

Interest Receivable

Interest Receivable consists of interest earned through the State Investment Council through June 30, 2018.

Inventory

Inventory consists of supplies and materials purchased for resale and are priced at cost using the first-in-first-out method.

Due from Federal Sources

Due from Federal Sources represents expenditures made on federal grants for which reimbursement has not been received.

Due from/to Primary Government

Due from/to Primary Government represents receivables or payables to various South Dakota state agencies not governed by the Board of Regents.

Due from/to Other Component Units

Due from/to Other Component Units represents receivables or payables to other South Dakota public universities or the Board of Regents.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at cost, or for donated assets, at fair value at the date of acquisition. Capital assets are depreciated on a straight-line basis over the useful life of the asset based on tables established by the State of South Dakota Bureau of Finance and Management. Capitalization thresholds and useful lives are as follows:

Asset Type	Capitalization Threshold	Useful Life
Building	100,000	40 years
Building Improvements	100,000	20 years
Land Improvements	50,000	10 years
Infrastructure	50,000	20-50 years
Equipment & Other Property	5,000	5-15 years

Major additions to capital assets, which are not substantially complete at year-end, are included in the financial statements as Construction in Progress. Major additions placed into service are transferred to Buildings & Building Improvements, Land Improvements, or Infrastructure at the earliest occurrence of occupancy or substantial completion of the project.

Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Agency Funds – Funds Held for Others

Current balances in Agency Funds – Funds Held for Others result from the University acting as an agent, or fiduciary, for student organizations.

Compensated Absences

All full-time and permanent part-time employees earn annual leave and sick leave. Employees earn fifteen days annual leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days annual leave per year that can be accumulated to forty days. Upon termination, employees receive payment for their accumulated annual leave. Employees earn fourteen days sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed 480 hours.

Bonds Payable

Bonds Payable consists of revenue bonds financing buildings, building improvements, and land improvements. Bonds Payable is reported net of the applicable premiums, and the premiums are deferred and amortized over the life of the bonds.

Federal Capital Contribution Refundable Advance

The Federal Capital Contribution Refundable Advance are funds owed to the federal government if federal loan programs were eliminated.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(1) Summary of Significant Accounting Policies (Continued)

Net Position

The University's net position are classified as follows:

Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, and reduced by outstanding balances for payables and bonds that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Expendable: Assets that are legally obligated to spend in accordance with externally imposed restrictions.

Unrestricted Net Position: Assets that do not meet the definition of the two preceding categories.

Revenue Recognition and Unearned Revenue

Revenue is recognized when earned. Restricted grant revenue is recognized only to the extent expended. Unearned revenue is recorded for amounts received from contract and grant sponsors that have not yet been earned and performance by the University has not been completed.

Scholarship Allowance and Student Financial Assistance

Tuition and fee revenue and auxiliary revenue have been reported net of student financial assistance and scholarship allowance in accordance with the alternative method prescribed by the National Association of College and University Business Officers (NACUBO). Under the alternative method, tuition and fee revenue and auxiliary revenue are reduced by the amount paid for by certain types of financial assistance such as PELL grants, other governmental and private grants, and scholarships. The alternative method eliminates the double reporting of revenue, first as financial aid and grant revenue and then as tuition and fee revenue or auxiliary revenue. Using the alternative method, the revenue is recognized for financial aid and grants while the financial assistance expense and tuition and fee revenue or auxiliary revenue is eliminated for the amount of financial assistance applied to students' accounts.

Operating and Non-Operating Revenues

Operating revenues consist of tuition and fees, auxiliary enterprises, general sales and services, contracts and grants, and loan funds. Non-operating revenues include state appropriations, capital and non-capital financing activities, capital grants, and investment income.

Endowment and Similar Funds

The asset of the endowment and similar funds administered by the Department of School and Public Lands have not been included in the financial statements as the University does not actively participate in the administration of these funds. Information may be found on the Department of School and Public Lands website at www.sdpubliclands.com.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on net position.

Emerging Accounting Standards

In June 2017, GASB issued Statement No. 87 *Leases* which requires the recognition of certain lease assets and liabilities for leases previously classified as operating leases to be recognized as inflows or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Although expected to be significant, University management has not yet determined the impact on the financial statements. This statement is effective for the University's year ending June 30, 2021.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(2) Capital Assets

A summary of changes in Capital Assets follows:

	2017	Prior Period Adjustments	2017 Restated	Additions	Disposals	2018
Land	\$ 234,350.00	\$ -	\$ 234,350.00	\$ -	\$ -	\$ 234,350.00
Building & Building Improvements	106,569,035.99	-	106,569,035.99	719,561.96	-	107,288,597.95
Land Improvements	5,701,361.20	-	5,701,361.20	1,403,345.75	-	7,104,706.95
Infrastructure	10,951,334.84	-	10,951,334.84	-	-	10,951,334.84
Equipment & Other Property		\$0.00				
Equipment	10,171,953.39	-	10,171,953.39	213,987.53	-	10,385,940.92
Library Books**	4,133,390.87	-	4,133,390.87	20,780.51	-	4,154,171.38
Total Assets	\$ 137,761,426.29	\$ -	\$ 137,761,426.29	\$ 2,357,675.75	\$ -	\$ 140,119,102.04
Less Accumulated Depreciation:						
Building & Building Improvements	\$ 32,454,006.81	\$ -	\$ 32,454,006.81	\$ 2,937,229.59	\$ -	\$ 35,391,236.40
Land Improvements	2,657,868.07	-	2,657,868.07	482,252.72	-	3,140,120.79
Infrastructure	4,761,189.71	-	4,761,189.71	428,862.62	-	5,190,052.33
Equipment & Other Property		\$0.00				
Equipment	6,752,253.19	-	6,752,253.19	650,271.81	-	7,402,525.00
Library Books**	3,958,232.46	-	3,958,232.46	42,999.68	-	4,001,232.14
Total Depreciation	\$ 50,583,550.24	\$ -	\$ 50,583,550.24	\$ 4,541,616.42	\$ -	\$ 55,125,166.66
Net Capital Assets	\$ 87,177,876.05	\$ -	\$ 87,177,876.05	\$ (2,183,940.67)	\$ -	\$ 84,993,935.38

**Library books and films are added at cost the year of their purchase. As books and films are disposed, they are removed at an average cost per book or film.

The State of South Dakota Bureau of Finance and Management’s policy concerning Special Collections and Historical Treasures states, “Works of art, historical treasures, and similar assets must be capitalized and reported at their historical cost or fair value at date of donation if they are held as individual items, but not if they are in a collection. Collections (and all additions to that collection) are not to be capitalized and reported, whether donated or purchased, that meets all of the following conditions. The collection is:

Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

Protected, kept unencumbered, cared for, and preserved.

Subject to an organizational policy that requires the proceeds from sale of collection items to be used to acquire other items for collections. This does not have to be a formal policy; however, there should be some evidence to support the existence of the policy.

For non-capitalized collections, a disclosure in the notes to the financial statements must be made for the description of the collection and the reasons these assets are not capitalized.”

The followings collections qualify under the State of South Dakota Bureau of Finance and Management’s policy as non-capitalized collections and are not included in our capital assets above. They are held for public exhibition and education and any proceeds from the sale of the items within these collections are to be returned to the collection. A Collection of Historical Treasures and Works of Art located in the E.Y. Berry Library Learning Center includes the Termisphere “Portrait of a College” by Dick Termes, the Collection of Lyndle Dunn Paintings, the A.D. Humbert Collection of Clay Tablets and the Rachetts Doll Collection.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(3) Construction in Progress & Commitments

A summary of changes in Construction in Progress follows:

	2017	Prior Period Adjustment	2017 Restated	Additions	Disposals	2018
EY Berry Library Renovation	\$ 459,464.29	\$ -	\$ 459,464.29	\$ -	\$ (459,464.29)	\$ -
Apartments Upgrade	434,164.71	-	434,164.71	260,479.14	-	694,643.85
Football Turf and Fencing	296,694.00	-	296,694.00	1,076,343.73	(1,373,037.73)	-
BHSU-RC Classroom Upgrade	67,085.27	(67,085.27)	-	3,617.00	(3,617.00)	-
Bookstore Renovation	27,538.72	(27,538.72)	-	473,401.94	(473,401.94)	-
Wenona Cook Walkway	-	-	-	540.60	-	540.60
Bank Stabilization & Erosion Control	-	-	-	30,308.02	(30,308.02)	-
Library Roof and Parapet	-	-	-	253,038.45	(253,038.45)	-
Lionel Bordeaux Hall	-	-	-	7,059.22	(7,059.22)	-
Total Construction in Progress	\$ 1,284,946.99	\$ (94,623.99)	\$ 1,190,323.00	\$ 2,104,788.10	\$ (2,599,926.65)	\$ 695,184.45

Construction projects listed above will be funded by HEFF and local funds.

(4) Compensated Absences

A summary of changes in Compensated Absences follows:

	2017	PPA	2017 Restated	Accrued	Used	2018	Current Portion
Annual Leave	\$ 858,988.25	\$ 75,405.57	\$ 934,393.82	\$ 880,815.41	\$ 729,745.56	\$ 1,085,463.67	\$ 616,624.08
Sick Leave	1,356,986.14	305,746.61	1,662,732.75	220,171.07	224,477.64	1,658,426.18	239,483.67
Total Compensated Absences	\$ 2,215,974.39	\$ 381,152.18	\$ 2,597,126.57	\$ 1,100,986.48	\$ 954,223.20	\$ 2,743,889.85	\$ 856,107.75

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(5) Bonds Payable and Restricted Net Position

Bonds Payable, Net of Premiums at June 30, 2018:

	Bond	Premium	Net	Current Portion
2014B Revenue Bond (originally the 2004A Student Union and Thomas Hall Renovations); matures in 2026; semi-annual payments bearing interest between 3.00% - 5.00%; paid with General Activity Fees	\$ 1,295,000.00	\$ 182,569.48	\$ 1,477,569.48	\$ 160,182.00
2014A Revenue Bond (originally the Crow Peak Hall and Thomas Hall Renovations); matures in 2039; semi-annual payments bearing interest between 3.00% - 5.00%; paid with Residence Halls auxiliary revenues	8,535,000.00	390,703.82	8,925,703.82	479,058.73
2007 Revenue Bond; matures in 2029; semi-annual payments bearing interest at 3.88%; paid with Bookstore and Dining auxiliary revenues and General Activity Fees	5,245,000.00	-	5,245,000.00	390,000.00
2006 Revenue Bond; matures in 2026; semi-annual payments bearing interest at 3.92%; paid with Parking auxiliary revenues	645,000.00	-	645,000.00	70,000.00
Total Bonds Payable, Net Premium	\$ 15,720,000.00	\$ 573,273.30	\$ 16,293,273.30	\$ 1,099,240.73

The Board of Regents authorized revenue bonds to finance the Student Union expansion, residence hall renovations, Lionel Bordeaux residence hall (previously Crow Peak residence hall), and parking lot improvements. Principal and interest payments are paid from auxiliary operating revenues and general activity fees. Net revenues pledged to bonds payable for the year ending June 30, 2018 were **\$2,645,052.19**. Restricted Net Position – Expendable Other of **\$1,872,390.00** was for the repair and replacement reserve bond requirements. Assets are held to be used for unusual or extraordinary maintenance or repairs, renewals, renovations and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the facilities.

Deferred Outflows of Resources represents the Loss on Debt Refinancing from the 2014B and 2014A revenue bonds. The Loss on Debt Refinancing is the difference between the reacquisition price and the net carrying amount of the refinanced debt. This amount is to be amortized over the life of the refinanced bonds.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(5) Bonds Payable and Restricted Net Position (Continued)

The changes in Bonds Payable for the year ended June 30, 2018 follows:

	2017	Proceeds	Payments	2018
2014B Bond	\$ 1,430,000.00	\$ -	\$ (135,000.00)	\$ 1,295,000.00
2014B Premium	207,751.48	-	(25,182.00)	182,569.48
2014A Bond	8,980,000.00	-	(445,000.00)	8,535,000.00
2014A Premium	409,762.55	-	(19,058.73)	390,703.82
2007 Bond	5,620,000.00	-	(375,000.00)	5,245,000.00
2006 Bond	715,000.00	-	(70,000.00)	645,000.00
	\$ 17,362,514.03	\$ -	\$ (1,069,240.73)	\$ 16,293,273.30

Debt service requirements follows:

	Principal	Interest	Total	Premiums
2019	\$ 1,055,000.00	\$ 683,049.00	\$ 1,738,049.00	\$ 44,240.73
2020	1,100,000.00	641,082.00	1,741,082.00	44,240.73
2021	1,145,000.00	591,137.00	1,736,137.00	44,240.73
2022	1,210,000.00	539,013.00	1,749,013.00	44,240.73
2023	1,255,000.00	484,014.00	1,739,014.00	44,240.73
2024-2028	4,815,000.00	1,693,277.00	6,508,277.00	151,953.13
2029-2033	2,375,000.00	909,530.00	3,284,530.00	95,293.65
2034-2038	2,250,000.00	449,162.50	2,699,162.50	95,293.65
2039	515,000.00	24,462.50	539,462.50	9,529.22
	\$ 15,720,000.00	\$ 6,014,727.00	\$ 21,734,727.00	\$ 573,273.30

(6) Retirement Plan

The South Dakota Retirement System (SDRS or the System) is a cost sharing, multiple employer public employee retirement system (PERS) established to provide retirement benefits for employees of the State and its political subdivisions. Members of SDRS include full time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities. Public schools, cities, and counties may choose not to include certain full time employees in the System.

SDRS is considered a part of the State financial reporting entity and is included in the State's financial report as a pension trust fund. Authority for establishing, administering, and amending plan provisions is found in South Dakota Codified Law (SDCL) 3-12. Copies of the audited SDRS financial statements are available at <http://www.sdrs.sd.gov/>.

As the University is a component unit of the State, the University's proportionate share of SDRS activity and balances are calculated and reported in the State's CAFR. The University's share of contributions to SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$1,252,234.07, \$1,273,825, and \$1,219,120 respectively, equal to the required contributions each year.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(7) Deferred Compensation Plan

Through the State, the University maintains a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary. The University has no liability for losses under the plan.

The assets of the deferred compensation plan are not included in the accompanying financial statements because the assets are remitted to a third party who administers and markets the plan for the participants. A copy of the South Dakota Retirement System financial statements is available to the public at <http://www.sdrs.sd.gov/>.

(8) Risk Management

The Risk Management Program was created to protect the assets and resources of the State through efficient control and financing of risks inherent in government operations by ensuring a safe environment for State employees and the general public. Responsibilities include ensuring that exposures to financial loss are discovered and handled appropriately, minimizing the possible interruption of vital public services, and reducing the costs and consequences of accidents through effective loss control management.

Housed with the Risk Management Program is the Public Entity Pool for Liability (PEPL), a self-insurance program created to cover risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability; medical malpractice liability; law enforcement liability; and products liability).

The South Dakota Property and Casualty Insurance Company, LLC, a discretely presented component unit of the State, provides property, including content, business income, and extra expense coverage on the State's buildings.

(9) Litigation

At June 30, 2018, the University was not involved in any lawsuits.

(10) Tuition and Fees

For the year ending June 30, 2018, the University collected and remitted state support tuition and system fees to the Board of Regents as follows:

State Support Tuition & Fees	\$ 8,791,521.99
HEFF Dollars from State Support Tuition & Fees	2,222,825.69
HEFF Dollars from Self Support Tuition	1,429,683.23
<u>Tuition Remittance to BOR</u>	<u>\$ 12,444,030.91</u>

The Higher Education Facilities Fund (HEFF) allocates 11.5% of tuition and fees from all state support universities to building improvements.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

(10) Tuition and Fees (Continued)

The University's allocation from the Board of Regents' Tuition and Fees Fund is as follows:

State Support Tuition & Fees	\$ 10,236,079.48
HEFF (Capital Contribution)	1,363,307.20
HEFF (Non-Operating Revenue)	850,195.37
University's Allocation from Board's Tuition and Fees Fund	\$ 12,449,582.05

(11) State Appropriations

The General Fund Appropriation of **\$9,837,340.38** reported on the Statement of Revenues, Expenses, and Changes in Net Position is reflective of the amount spent during the year ending June 30, 2018.

(12) Prior Period Adjustments

Net Position - Beginning of Year	\$ 81,760,429.53
Prior Period Adjustments	
Equipment	52,694.00
CWIP	(94,623.99)
Compensated Absences	(381,410.88)
Liabilities, Clearing Funds, Agency Funds	(8,336.57)
Total Prior Period Adjustments	(431,677.44)
Net Position - Beginning of Year Restated	\$ 81,328,752.09

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2018

(13) Functional Expenses

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other & Bad Debt Expense	Depreciation	Total
Instruction	\$ 13,210,578.30	\$ 380,589.05	\$ 833,373.60	\$ 489,137.24	\$ 54,842.00	\$ 58.01	\$ 1,542,870.32	\$ 16,511,448.52
Research	838,083.75	57,167.46	44,061.91	218,215.92	192,305.13	-	101,957.81	1,451,791.98
Public Service	594,856.51	20,828.48	90,442.82	136,201.05	24,651.00	-	3,663.20	870,643.06
Academic Support	3,226,161.56	133,901.33	573,031.91	407,180.19	-	55.06	340,977.92	4,681,307.97
Student Services	4,447,483.88	546,365.38	1,030,118.06	611,429.39	118,850.76	-	480,137.92	7,234,385.39
Institutional Support	4,077,116.76	121,955.50	1,367,374.71	114,670.21	380.00	10,938.23	206,702.13	5,899,137.54
O&M of Plant	2,526,137.52	64,808.96	1,524,388.52	1,188,177.08	-	42.36	1,203,732.04	6,507,286.48
Scholarships	-	286.88	-	-	2,401,627.86	76,856.60	-	2,478,771.34
Auxiliaries	1,748,285.14	17,263.10	2,766,193.07	1,323,434.25	-	-	661,575.08	6,516,750.64
Total	\$ 30,668,703.42	\$ 1,343,166.14	\$ 8,228,984.60	\$ 4,488,445.33	\$ 2,792,656.75	\$ 87,950.26	\$ 4,541,616.42	\$ 52,151,522.92

Other & Bad Debt Expense:

Bad Debt Expense	\$ 10,369.23
Loan Cancellation Expense	76,856.60
Interest	724.43
Total & Bad Debt Expense	\$ 87,950.26

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Black Hills State University Foundation (the Foundation) is committed to educational advancement through providing scholarships and awards to Black Hills State University (the University) students and providing support to management, alumni, and special projects of the University. The Foundation is responsible for contributions, endowed funds, and the income generated by those funds.

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting; consequently, certain revenue and the related assets are recognized when earned rather than when received and certain expenses are recognized when incurred rather than when the obligation is paid.

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Net assets that are not subject to donor/grantor imposed stipulations.

Temporarily Restricted Net Assets - Net assets that are subject to donor/grantor imposed time or purpose stipulations. Temporarily restricted net assets consist of donor contributions and grant funds that have been received by the Foundation but have not yet been expended for the purpose specified by the donor or grantor.

Permanently Restricted Net Assets - Net assets that are subject to donor/grantor imposed stipulations that are maintained permanently by the Foundation.

Cash and Cash Equivalents and Short-term Investments

The Foundation considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents. Money market funds, held as a portion of the Foundation's endowment portfolio, are classified as short-term investments and are not considered to be cash equivalents for purposes of the statement of cash flows.

Pledges Receivable

Unconditional promises to give are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts and contributions are recorded at fair value at the time of donation. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which promises are to be received.

Investments

The Foundation carries its investments at their estimated fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Expenses related to investment revenues, including custodial fees and investment advisory fees, were \$78,724, and are included as a component of the investment gains reported in the change in temporarily restricted net assets within the Statement of Activities.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collections

Collection items acquired on or after January 1, 2004 are recorded at cost if purchased and at appraised or fair market value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions.

Property and Equipment

Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. All purchases or donations of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Building and Improvements	27 - 40
Equipment and Furnishings	5 - 7

Income Tax Status

The Foundation follows the accounting guidance for uncertainty in income taxes. A tax position initially needs to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities.

The Foundation is a nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code. The Foundation is not liable for income taxes if it operates within the confines of its exempt status, though the Foundation may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Foundation could be changed if an adjustment in the tax-exempt purpose or income from unrelated business activities is ultimately determined by the taxing authorities.

As of December 31, 2017, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Foundation's income tax filings are subject to audit by various taxing authorities. The Foundation is no longer subject to federal and state income tax examinations by taxing authorities for years before 2014. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings. The Foundation believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Liquidity

Assets and liabilities are presented in the order of liquidity in the Statement of Financial Position. Any further restrictions are disclosed in the notes to the financial statements.

NOTE 2 - PLEDGES RECEIVABLE

As of December 31, 2017, pledges receivable included unconditional promises to give for the establishment of scholarship funds. These pledges are due as follows:

Receivable in Less Than One Year	\$ 64,517
Receivable in One to Five Years	96,213
Receivable in More Than Five Years	5,000
Total Pledges Receivable	<u>165,730</u>
Less: Unamortized Discounts to Net Present Value	(6,714)
Less: Allowance for Uncollectible Pledges	<u>(26,351)</u>
Net Pledges Receivable	<u>\$ 132,665</u>

Unconditional pledges receivable due in more than one year are discounted based on the credit worthiness of donors, which was 3.25% as of December 31, 2017. Other pledges are discounted at 6.25% based on agreements with donors.

NOTE 3 - ENDOWMENT FUNDS

The Board of Directors, on the advice of legal counsel, has determined that contributions to the Foundation that are not designated for specific endowments or purpose and that do not have written donor agreements, but for which management has reason to believe the contribution was intended for the endowment, will be classified as permanent endowments in which the corpus of the donation will be protected. However, if the original corpus of the donation is unknown, or if there is reason to believe the corpus is expendable, the Foundation classifies the contribution as temporarily restricted.

The Foundation has adopted investment and spending policies for endowment assets that seek to preserve its real (inflation adjusted) purchasing power while providing a relatively predictable, stable, and constant (in real terms) stream of earnings consistent with prudent risk limits and the Foundation's spending needs. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 3 - ENDOWMENT FUNDS (CONTINUED)

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that allows for the investment of assets in pooled funds or in direct investments, or a combination of the two. Assets will typically be diversified among high quality stocks and bonds. Additional asset classes may be included when it is reasonable to expect the additional asset class will increase return and/or reduce risk. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 5% plus inflation over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the various endowment assets of the Foundation. The current spending policy is to distribute no more than 5% of the 12 quarter rolling average of the market value of the Pooled Long-Term Fund and the Pooled Equity Fund. The Foundation will distribute from the Pooled Fixed Income Fund net income and the contractual rate specified within annuity or charitable trust agreements. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

As of December 31, 2017, all endowment net assets were donor restricted endowment funds. The composition of and changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment
Endowment Net Assets, Beginning	\$ 2,898,537	\$ 11,289,881	\$ 14,188,418
Reclassifications	-	1,500	1,500
Contributions to Endowment	28,532	1,014,615	1,043,147
Net Appreciation on Investments	1,740,536	-	1,740,536
Investment Losses Repaid			
to Unrestricted Net Assets	38,263	-	38,263
Management Fees Charged			
to Endowment	(380,529)	-	(380,529)
Purpose Restrictions Accomplished	(476,535)	-	(476,535)
Endowment Net Assets, Ending	<u>\$ 3,848,804</u>	<u>\$ 12,305,996</u>	<u>\$ 16,154,800</u>

As of December 31, 2017, the Foundation had a \$41,324 deficiency in the amount of temporarily restricted net assets that are required to be maintained under donor agreements. This deficiency is the result of overspending funds during the year.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS

The Foundation classifies assets and liabilities measured at fair market value within a hierarchy based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equities and listed derivatives. The Foundation, to the extent that it holds such investments, does not adjust the quoted price of these investments.

Level II - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and mutual funds.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Foundation did not have any Level III-type investments as of December 31, 2017.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

The fair value of each financial instrument in the table below was measured using input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments at December 31, 2017:

	Level I	Level II	Total
Certificates of Deposit	\$ 591,912	\$ -	\$ 591,912
Mutual Funds:			
Domestic Equity	206,597	-	206,597
US Treasury Bond Funds	102,971	-	102,971
Fixed Income	2,369,710	-	2,369,710
Global Mixed	108,940	-	108,940
Treasury Inflation Port Funds	358,190	-	358,190
International Equity	3,221,045	-	3,221,045
Floating Rate Funds	255,354	-	255,354
Large Cap	4,052,883	-	4,052,883
Mid Cap	535,007	-	535,007
Mortgage Security Bond Funds	103,252	-	103,252
Small Cap	841,141	-	841,141
Real Estate	-	267,811	267,811
Preferred Securities	-	35,953	35,953
Municipal Bonds	-	1,283,875	1,283,875
Equity Securities:			
Technology	95,391	-	95,391
Consumer Services	21,956	-	21,956
Utilities	45,612	-	45,612
Healthcare	174,548	-	174,548
Financial	116,162	-	116,162
Industrial Goods	135,248	-	135,248
Basic Materials	151,622	-	151,622
Energy	102,690	-	102,690
Structured Debt	-	625,838	625,838
Corporate Bonds:			
Utilities	-	82,854	82,854
Financial	364,377	1,287,289	1,651,666
Consumer Goods	-	186,345	186,345
Conglomerates	-	753,001	753,001
Total Investments	<u>\$ 13,954,608</u>	<u>\$ 4,522,966</u>	<u>\$ 18,477,574</u>
Short-term Investments:			
Cash and Cash Equivalents	<u>927,542</u>	-	<u>927,542</u>
Total Short-term Investments	<u>\$ 927,542</u>	<u>\$ -</u>	<u>\$ 927,542</u>
Annuity Liabilities	<u>-</u>	<u>\$ 297,854</u>	<u>\$ 297,854</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

Mutual Funds - These funds consist entirely of publicly traded securities that are priced by an investment manager or custodian with reference to available quotations for identical assets.

Municipal and Corporate Bonds, and Structured Debt - Many of these types of securities do not trade on a daily basis so, in the absence of available quotations for identical assets, must be valued using other methods. These securities are valued by the custodian through the use of outside pricing services. Such services employ pricing models and applications incorporating inputs such as security quality, cash flow, maturity and coupon, supplemental research and evaluation, and review of recent broker-dealer market price quotations for similar securities.

The Foundation measures pledges receivable at fair market value on a non-recurring basis using unobservable inputs. Pledges receivable are measured at fair market value based on the expected future cash flows and the credit worthiness of the donor as explained in Note 2.

The Foundation measures annuity liabilities based on the donors' life expectancies and the use of 2.0% - 2.80% discount rates as explained in Note 9.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes will occur in the near-term and such changes could materially affect the investment balances and the amounts reported in the Statement of Financial Position.

NOTE 5 - RELATED-PARTY NOTE RECEIVABLE

In a prior period, the Foundation borrowed \$55,000 from a bank (see Note 10) and advanced the proceeds to the Yellow Jacket Foundation (the athletic support foundation for Black Hills State University). The loan proceeds were used for repairs to the football field on the University campus. The Yellow Jacket Foundation is conducting a capital campaign to raise funds for repayment of the note, however due to cash flow constraints related to pledge collections, it was necessary that the Foundation loan money to the Yellow Jacket Foundation for the project. The terms of the loan to the Yellow Jacket Foundation mirror those of the bank debt as described in Note 10. As of December 31, 2017 the balance on the loan was \$11,839. This balance is estimated to be fully collectible based on the relationship with the Yellow Jacket Foundation. As such, the Foundation does not have a policy for past due receivables.

NOTE 6 - CASH SURRENDER VALUE OF LIFE INSURANCE

The cash surrender value of life insurance is recorded based on estimated amounts available upon surrender of the policies. During the year ended December 31, 2014, the Foundation borrowed against the cash surrender value of life insurance in order to finance the cost of construction of the Alumni Center. The balance of the loan against the policy was \$111,580 as of December 31, 2017. Therefore, the value recorded represents contract value less the proceeds from the loan.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

Land	\$ 507,446
Buildings and Improvements	2,629,256
Equipment and Furnishings	260,060
	3,396,762
Less: Accumulated Depreciation	(407,603)
Property and Equipment, Net of Accumulated Depreciation	\$ 2,989,159

NOTE 8 - AMOUNTS HELD FOR OTHERS

The Foundation's investments include funds accepted for deposit from certain other non-profit organizations and certain clubs and student groups associated with Black Hills State University. The organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation (depreciation). Accordingly, their share of the managed funds is recorded as a liability in the accompanying Statement of Financial Position. In addition, these organizations have other assets (cash) that have been co-mingled with the Foundation and are also included in the liability balance at December 31, 2017.

NOTE 9 - ANNUITY LIABILITY

During the year ending December 31, 2015, the Foundation was named a beneficiary of a \$1,000,000 gift annuity. Under the terms of the agreement, the Foundation established an annuity liability to the donor with the remaining proceeds to be temporarily restricted. The annuity liability was established based on the donor's life expectancy and the use of a 2.00% discount rate. The fair value of the assets to which the Foundation has rights to is included in pooled investments.

During the year ending December 31, 2017, the Foundation was named a beneficiary of a \$20,000 gift annuity. Under the terms of the agreement, the Foundation established an annuity liability to the donor with the remaining proceeds to be temporarily restricted. The annuity liability was established based on the donor's life expectancy and the use of a 2.40% discount rate. The fair value of the assets to which the Foundation has rights to is included in pooled investments.

NOTE 10 - LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2017:

Note payable to a bank due in monthly installments of \$3,436 including 4.75% interest, due April 2044. This note is secured by real estate.	\$ 618,893
Note payable to a bank due in annual installments of \$12,355 including 4% interest. Final installment is due October 2018. This note is unsecured.	11,839
	\$ 630,732

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 10 - LONG-TERM DEBT (CONTINUED)

The future scheduled maturities of the above notes payable are as follows:

For the Year Ending December 31,		
2018	\$	24,011
2019		12,762
2020		13,382
2021		14,032
2022		14,713
Thereafter		<u>551,832</u>
	\$	<u>630,732</u>

During the year ended December 31, 2017, the Foundation incurred \$35,276 of interest expense related to the notes payable.

NOTE 11 - BOARD-DESIGNATED NET ASSETS

Board-designated net assets were designated for the following purposes at December 31, 2017:

Scholarships	\$	595,000
Purchase of Property		<u>405,000</u>
Total Board-designated Net Assets	\$	<u>1,000,000</u>

Subsequent to year-end, the Foundation purchased property using board-designated funds for \$405,000.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

Scholarships, Awards, and Grants	\$	3,865,316
Fine Arts Fund		928,229
Welcome Center		1,243,026
Time Restriction on Long-term Receivables		132,665
Time Restriction on Life Insurance		<u>1,357,036</u>
Total Temporarily Restricted Net Assets	\$	<u>7,526,272</u>

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment funds which are to be held indefinitely (see Note 3). The income from the related assets can be used to support the Foundation's scholarship, award, and grant activities.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2017

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS AND RECLASSIFICATIONS (CONTINUED)

Reclassifications of net assets as presented in the Statement of Activities represent the following items:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Clarification of Donor Intent	\$ (1,500)	\$ -	\$ 1,500
Deficit Spending Absorbed by Unrestricted Net Assets	<u>(38,263)</u>	<u>38,263</u>	<u>-</u>
Total Reclassifications	<u>\$ (39,763)</u>	<u>\$ 38,263</u>	<u>\$ 1,500</u>

NOTE 14 - RELATED-PARTY TRANSACTIONS

The Foundation, in the normal course of business, engages in transactions with the University. The University has been designated as the beneficiary of the Foundation. The Foundation pays all scholarships and contributions to the University's students and departments. Substantially all expenses of the Foundation directly or indirectly benefit the University.

In addition, during the year ended December 31, 2017 rental income was received from a lease agreement with the University for the University President's residence. As of December 31, 2017, the cost of assets included in property and equipment being leased to the University totaled \$1,333,822. Accumulated depreciation related to these assets was \$71,439 as of December 31, 2017.

The University also provides staff to the Foundation. The in-kind donations of employee time include services that affect all functions of the Foundation. The estimated cost to the University, or benefit to the Foundation, as a result of the University providing these in-kind staffing contributions was \$268,756 for the year ended December 31, 2017, which includes salaries and benefits. The staffing contributions are not recorded in the financial statements, as these in-kind contributions do not meet the requirements under accounting principles generally accepted in the United States of America.

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments or deposits and accounts receivable, such as pledges receivable and contributions receivable. The Foundation places its temporary cash investments and deposits with various financial institutions and at times, these amounts may exceed the amounts insured by Federal Deposit Insurance Corporation.

In addition, approximately 57% of the pledges receivable balance at December 31, 2017 consisted of pledges from three donors.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events were evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**Black Hills State University Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2017**

	Program Services				Total Programs
	Scholarships and Awards	University Support	Alumni Association	Presidential Support	
Scholarships	\$ 860,521	\$ -	\$ -	\$ -	\$ 860,521
Awards	-	212,256	740	-	212,996
Professional Fees	-	45,073	-	500	45,573
Payroll	-	-	-	-	-
Special Projects	-	23,496	-	-	23,496
Depreciation	-	55,640	-	-	55,640
Office Expense	-	48,938	7,686	340	56,964
Meals & Entertainment	-	27,257	20,285	3,833	51,375
Travel	-	23,662	3,875	199	27,736
Dues & Fees	-	6,118	7,572	-	13,690
Advertising	-	5,076	-	-	5,076
President Expenses	-	-	-	8,125	8,125
Insurance	-	-	-	-	-
Alumni Events	-	-	12,208	-	12,208
Interest Expense	-	5,586	-	29,690	35,276
Occupancy	-	2,062	308	614	2,984
Miscellaneous	-	4,939	247	550	5,736
Provision for Bad Debts	-	-	-	-	-
Total Expenses	\$ 860,521	\$ 460,103	\$ 52,921	\$ 43,851	\$ 1,417,396

See independent auditor's report.

Supporting Services		
Management and General	Fundraising	Total
\$ -	\$ -	\$ 860,521
-	-	212,996
22,657	36,246	104,476
2,958	85,116	88,074
2,753	-	26,249
25,526	-	81,166
8,008	7,832	72,804
3,258	39,024	93,657
4,231	12,718	44,685
8,197	259	22,146
343	5,000	10,419
-	-	8,125
10,196	-	10,196
-	-	12,208
-	-	35,276
2,656	-	5,640
9,425	-	15,161
<u>13,317</u>	<u>-</u>	<u>13,317</u>
<u>\$ 113,525</u>	<u>\$ 186,195</u>	<u>\$ 1,717,116</u>

See independent auditor's report.