



**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

**BLACK HILLS STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

TABLE OF CONTENTS

Management's Discussion and Analysis	1
Financial Statements:	
Statement of Net Position	10
Foundation Statement of Financial Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Foundation Statement of Activities	15
Foundation Statement of Functional Expenses	17
Statement of Cash Flows	19
Foundation Statement of Cash Flows	21
Notes to the Financial Statements	23
Foundation Notes to the Financial Statements	34

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. 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 awarded 571 degrees in the 2019 academic year. Fall headcount enrollment declined to 4,035 in 2019 from 4,178 in 2018. Black Hills State University – Rapid City fall enrollment was 971 in 2019 and 1,072 in 2018. Dual credit students increased to 533 in 2019 from 495 in 2018.

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

Housing occupancy was to 86% in 2019. 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 85 to 94.

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

Class size decreased to 18:1 for 2019 from 20:1 in 2018. The University increased awards to Honors students to \$319,000 in 2019 from \$251,000 in 2018; increased awards to student athletes from \$1,044,000 in 2018 to \$1,150,000 in 2019; and increased the dollars raised for the presidential Medallion scholarships from \$16,272 in 2018 to \$22,000 in 2019

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

The number of donors decreased slightly in 2019 to 2,099 from 2,106 in 2018. However, the BHSU Foundation endowments increased to \$18.3 million in 2019 from \$17.83 million in 2018. The BHSU Foundation was also in the final stages of completing a successful \$45 million fundraising campaign that focused on student scholarships.

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 2019 and 2018, 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, 2019**

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	2019	2018
Current Assets	\$ 14,478,363.62	\$ 15,324,921.34
Non-Current Assets	85,450,318.00	87,273,920.79
Total Assets	\$ 99,928,681.62	\$ 102,598,842.13
Deferred Outflows of Resources	\$ 69,393.03	\$ 74,270.16
Total Assets and Deferred Outflows of Resources	\$ 99,998,074.65	\$ 102,673,112.29
Liabilities		
Current Liabilities	\$ 3,494,751.39	\$ 3,769,783.49
Non-Current Liabilities	18,366,172.14	19,590,735.67
Total Liabilities	\$ 21,860,923.53	\$ 23,360,519.16
Net Position		
Net Investment in Capital Assets	\$ 68,927,260.52	\$ 69,470,116.69
Restricted	1,881,140.82	1,728,543.06
Unrestricted	7,328,749.78	8,113,933.38
Total Net Position	\$ 78,137,151.12	\$ 79,312,593.13
Total Liabilities and Net Position	\$ 99,998,074.65	\$ 102,673,112.29

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

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 in Phase IV (the final phase of the upgrade). The project to renovate the walkway near the Wenona-Cook Residence Hall was almost complete at the end of fiscal year 2019. The University's largest asset is its investment in Buildings & Building Improvements which represents approximately \$70 million of non-current assets.

Construction in Progress

	2019	2018
Apartments Upgrade	\$ -	\$ 694,643.85
Football Turf and Fencing	158,602.04	
Wenona Cook Walkway	188,069.15	540.60
Chiller Replacement	2,135,920.78	-
Total Construction in Progress	\$ 2,482,591.97	\$ 695,184.45

Capital Assets, Net Accumulated Depreciation

	2019	2018
Land	\$ 234,350.00	\$ 234,350.00
Building & Building Improvements, Net	69,810,882.79	71,897,361.55
Land Improvements, Net	3,484,785.14	3,964,586.16
Infrastructure, Net	5,355,019.40	5,761,282.51
Equipment & Other Property, Net	2,684,270.76	3,136,355.16
Total Capital Assets, Net	\$ 81,569,308.09	\$ 84,993,935.38

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

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 \$15,194,032.57.

Non-Current Liabilities

	2019	2018
2014B Revenue Bond	\$ 1,317,387.48	\$ 1,477,569.48
2014A Revenue Bond	8,446,645.09	8,925,703.82
2007 Revenue Bond	4,855,000.00	5,245,000.00
2006 Revenue Bond	575,000.00	645,000.00
Total Bonds Payable	15,194,032.57	16,293,273.30
Compensated Absences Payable	2,743,259.30	2,743,889.85
Federal Capital Contribution Refundable Advance	2,508,921.00	2,508,921.00
Total Non-Current Liabilities	\$ 20,446,212.87	\$ 21,546,084.15
Due Within One Year	\$ 2,080,040.73	\$ 1,955,348.48

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 decreased in 2019. The financial statements for 2018 and 2019 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

	2019	2018
Total Operating Revenues	\$ 32,475,560.41	\$ 33,686,387.10
Total Operating Expenses	(50,920,213.13)	(52,151,522.92)
Operating Loss	\$ (18,444,652.72)	\$ (18,465,135.82)
Non-Operating Revenues and Expenses	\$ 14,287,763.76	\$ 15,085,669.66
Other Revenues	2,432,066.33	1,363,307.20
Total Increase in Net Position	\$ (1,724,822.63)	\$ (2,016,158.96)
Net Position - Beginning of the year	\$ 79,312,593.13	\$ 81,760,429.53
Prior Period Adjustments	549,380.63	(431,677.44)
Net Position - End of the year	\$ 78,137,151.12	\$ 79,312,593.13

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Highlights (Continued)

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

Total Operating Revenues were down approximately \$1.2 million, primarily from Net Tuition and Fees and Net Auxiliaries revenues as enrollment declined. Increases in General Sales and Grants partially offset the decrease in Net Tuition and Fee and Net Auxiliaries revenues.



Operating Revenues	2019	2018	Increase (Decrease)
Tuition and Fees, Net	\$ 16,618,139.63	\$ 18,372,500.71	\$ (1,754,361.08)
Auxiliaries, Net	4,312,583.85	4,739,026.53	(426,442.68)
General Sales & Services	3,434,096.50	2,658,196.25	775,900.25
Federal Contracts & Grants	3,753,141.60	3,662,995.35	90,146.25
State Contracts & Grants	934,686.90	915,054.16	19,632.74
Private Contracts & Grants	3,397,153.80	3,283,917.14	113,236.66
Student Loan Interest	22,416.20	20,646.11	1,770.09
Other Revenue and Additions	3,341.93	34,050.85	(30,708.92)
Total Operating Revenues	\$ 32,475,560.41	\$ 33,686,387.10	\$ (1,210,826.69)

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Highlights (Continued)

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

Total Operating Expenses decreased approximately \$1.2 million. BHSU implemented some strategic budget cuts in FY19 to align expenses to revenue for the fiscal year.



Operating Expenses	2019	2018	Increase (Decrease)
Personal Services	\$ 30,605,213.24	\$ 30,668,703.42	\$ (63,490.18)
Travel	1,630,036.73	1,343,166.14	286,870.59
Contractual	7,335,095.90	8,228,984.60	(893,888.70)
Supplies & Materials	4,072,290.73	4,488,445.33	(416,154.60)
Grants	2,582,148.87	2,792,656.75	(210,507.88)
Interest	6,840.67	724.43	6,116.24
Loan Cancellation Expense	31,588.52	76,856.60	(45,268.08)
Bad Debt	151,423.58	10,369.23	141,054.35
Depreciation	4,505,574.89	4,541,616.42	(36,041.53)
Total Operating Expenses	\$ 50,920,213.13	\$ 52,151,522.92	\$ (1,231,309.79)

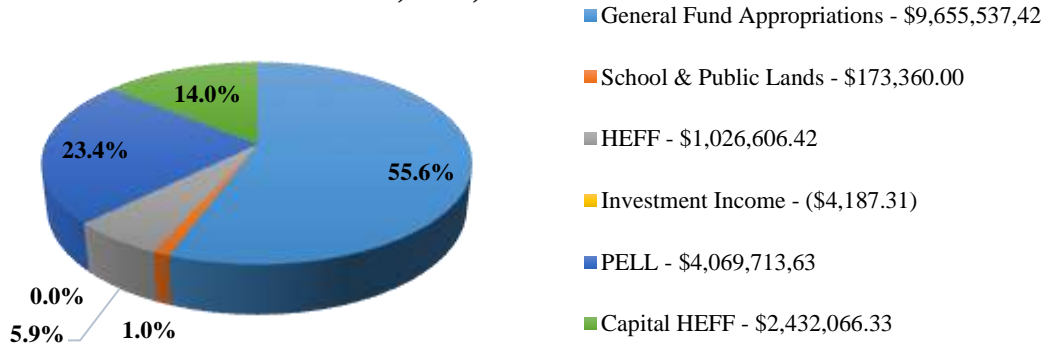
**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Highlights (Continued)

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

Other Revenues increased approximately \$230,000.

**FY19 Non - Operating & Other Revenues
\$17,353,096.49**



Non-Operating & Other Revenues	2019	2018	Increase (Decrease)
General Fund Appropriations	\$ 9,655,537.42	\$ 9,837,340.38	\$ (181,802.96)
School & Public Lands	173,360.00	173,360.00	-
HEFF	1,026,606.42	850,195.37	176,411.05
Investment Income	(4,187.31)	36,477.66	(40,664.97)
PELL	4,069,713.63	4,862,642.85	(792,929.22)
Capital HEFF	2,432,066.33	1,363,307.20	1,068,759.13
South Dakota Building Authority Capital Financing	-	-	-
Capital Contracts & Grants	-	-	-
Total Non-Operating & Other Revenues	\$ 17,353,096.49	\$ 17,123,323.46	\$ 229,773.03

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2019**

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	2019	2018
Operating Activities	\$ (14,243,870.43)	\$ (13,948,519.81)
Non-Operating Activities	14,184,771.23	15,158,949.35
Capital Related Activities	(2,216,666.57)	(2,195,370.00)
Investing Activities	39,585.98	96,319.94
Net Decrease in Cash	(2,236,179.79)	(888,620.52)
Cash - Beginning of the year	11,788,298.71	12,676,919.23
Cash - End of the year	\$ 9,552,118.92	\$ 11,788,298.71

The University's cash decreased approximately \$2.2 million from 2018.

Outlook for FY20 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. With the decline in enrollment, the university made some strategic budget cuts in FY19 to help position the University for FY20 and beyond. The University is under new leadership for FY20 with the appointment of President Laurie Nichols. Budgets are adjusted each year to reflect the projected revenues.

Black Hills State University
Statements of Net Position
June 30, 2019 and 2018

Assets	2019	2018
<u>Current Assets</u>		
Cash & Cash Equivalents on Deposit - State Treasurer	\$ 9,381,639.77	\$ 11,716,390.51
Cash	170,479.15	71,180.54
Accounts Receivable - Students	2,002,294.29	832,242.60
Allowance for Doubtful Accounts - Students	(376,917.15)	(135,136.44)
Accounts Receivable - Department Sales	308,258.88	110,567.75
Notes Receivable	204,101.34	249,276.50
Interest Receivable	3,289.42	47,062.71
Inventory	843,649.49	844,366.92
Due from Federal Sources	1,703,203.11	1,101,142.38
Due from Primary Government	95,320.56	349,927.51
Due from Other Component Units	143,044.76	137,900.36
Total Current Assets	\$ 14,478,363.62	\$ 15,324,921.34
<u>Non-Current Assets</u>		
Restricted Cash & Cash Equivalents on Deposit - State Treasurer	\$ -	\$ 727.66
Notes Receivable	1,398,417.94	1,584,073.30
Capital Assets:		
Land	234,350.00	234,350.00
Construction in Progress	2,482,591.97	695,184.45
Building & Building Improvements	108,172,874.79	107,288,597.95
Accumulated Depreciation - Building & Building Improvements	(38,361,992.00)	(35,391,236.40)
Land Improvements	7,104,706.95	7,104,706.95
Accumulated Depreciation - Land Improvements	(3,619,921.81)	(3,140,120.79)
Infrastructure	10,951,334.84	10,951,334.84
Accumulated Depreciation - Infrastructure	(5,596,315.44)	(5,190,052.33)
Equipment & Other Property	14,728,077.56	14,540,112.30
Accumulated Depreciation - Equipment & Other Property	(12,043,806.80)	(11,403,757.14)
Total Non-Current Assets	\$ 85,450,318.00	\$ 87,273,920.79
<u>Deferred Outflows</u>		
Loss on Debt Refinancing	\$69,393.03	\$74,270.16
Total Assets and Deferred Outflows	\$ 99,998,074.65	\$ 102,673,112.29

Black Hills State University
Statements of Net Position
June 30, 2019 and 2018

Liabilities	2019	2018
<u>Current Liabilities</u>		
Accounts Payable	\$ 357,087.63	\$ 351,280.45
Accrued Wages & Benefits	590,011.63	597,899.68
Accrued Interest Payable	162,234.75	172,653.75
Student Deposits	157,214.00	133,950.00
Agency Funds - Funds Held For Others	25,280.62	24,307.43
Unearned Revenue	84,753.52	34,474.69
Due to Primary Government	27,950.79	26,123.27
Due to Other Component Units	13,034.72	473,745.74
Other Accrued Liabilities	(2,857.00)	-
Compensated Absences Payable - Current Portion	935,800.00	856,107.75
Bonds Payable, Net Premium - Current Portion	1,144,240.73	1,099,240.73
Total Current Liabilities	\$ 3,494,751.39	\$ 3,769,783.49
<u>Non-Current Liabilities</u>		
Compensated Absences Payable - Non-Current	\$ 1,807,459.30	\$ 1,887,782.10
Bonds Payable, Net Premium - Non-Current	14,049,791.84	15,194,032.57
Federal Capital Contribution Refundable Advance	2,508,921.00	2,508,921.00
Total Non-Current Liabilities	\$ 18,366,172.14	\$ 19,590,735.67
Total Liabilities	\$ 21,860,923.53	\$ 23,360,519.16
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 68,927,260.52	\$ 69,470,116.69
Restricted		
Expendable		
Debt Service	-	727.66
Other	1,881,140.82	1,727,815.40
Unrestricted	7,328,749.78	8,113,933.38
Total Net Position	\$ 78,137,151.12	\$ 79,312,593.13
Total Liabilities and Net Position	\$ 99,998,074.65	\$ 102,673,112.29

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, 2018

ASSETS	
Cash and Cash Equivalents	\$ 458,667
Short-term Investments	779,516
Rent Receivable	12,967
Prepaid Expenses	10,096
Pledges Receivable, Net of Allowance and Discount	97,347
Investments	16,833,233
Cash Surrender Value of Life Insurance	1,540,298
Collections	44,895
Property and Equipment, Net	<u>3,311,516</u>
TOTAL ASSETS	<u>\$ 23,088,535</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts Payable	\$ 141,903
Assets Held for Others	2,231,440
Unearned Rent Revenue	24,620
Annuity Liability	231,627
Long-term Debt	<u>602,829</u>
Total Liabilities	<u>3,232,419</u>
Net Assets:	
Without Donor Restrictions	1,559,774
With Donor Restrictions	
Restricted by Time or Purpose	5,591,266
Restricted in Perpetuity	<u>12,705,076</u>
Total Net Assets	<u>19,856,116</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,088,535</u>

See the 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, 2019 and 2018

Operating Revenues	2019	2018
<u>Tuition</u>		
State support	\$ 8,041,027.00	\$ 10,236,079.48
Self support	10,832,489.08	10,705,499.94
Total Tuition	\$ 18,873,516.08	\$ 20,941,579.42
<u>Fees</u>		
General Activity Fee	\$ 1,512,212.79	\$ 1,561,286.44
Special Discipline Fees	104,921.75	111,642.24
Vehicle Registration	138,177.10	142,501.82
Other Fees	275,494.99	265,032.56
Charges	354,258.76	228,324.42
Total Fees	\$ 2,385,065.39	\$ 2,308,787.48
Total Tuition and Fees	\$ 21,258,581.47	\$ 23,250,366.90
Student Financial Assistance	(4,640,441.84)	(4,877,866.19)
Total Tuition and Fees, Net of Student Financial Assistance	\$ 16,618,139.63	\$ 18,372,500.71
Auxiliaries	\$ 5,974,870.77	\$ 6,396,073.69
Scholarship Allowance	(1,662,286.92)	(1,657,047.16)
Auxiliaries, Net Scholarship Allowance	4,312,583.85	4,739,026.53
General Sales & Services	3,434,096.50	2,658,196.25
Contracts & Grants		
Federal	3,753,141.60	3,662,995.35
State	934,686.90	915,054.16
Private	3,397,153.80	3,283,917.14
Student Loan Interest	22,416.20	20,646.11
Other Revenue & Additions	3,341.93	34,050.85
Total Operating Revenues	\$ 32,475,560.41	\$ 33,686,387.10
<u>Operating Expenses</u>		
Personal Services	\$ (30,605,213.24)	\$ (30,668,703.42)
Travel	(1,630,036.73)	(1,343,166.14)
Contractual	(7,335,095.90)	(8,228,984.60)
Supplies & Materials	(4,072,290.73)	(4,488,445.33)
Grants	(2,582,148.87)	(2,792,656.75)
Interest	(6,840.67)	(724.43)
Loan Cancellation Expense	(31,588.52)	(76,856.60)
Bad Debt	(151,423.58)	(10,369.23)
Depreciation	(4,505,574.89)	(4,541,616.42)
Total Operating Expenses	\$ (50,920,213.13)	\$ (52,151,522.92)

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2019 and 2018

	2019	2018
Operating Loss	\$ (18,444,652.72)	\$ (18,465,135.82)
<u>Non-Operating Revenues (Expenses)</u>		
General Fund Appropriations	\$ 9,655,537.42	\$ 9,837,340.38
School & Public Lands	173,360.00	173,360.00
HEFF	1,026,606.42	850,195.37
Investment Income	(4,187.31)	36,477.66
Interest on Capital Assets	(633,266.40)	(674,346.60)
Loss on Disposal of Asset		-
PELL	4,069,713.63	4,862,642.85
Total Non-Operating Revenues (Expenses)	\$ 14,287,763.76	\$ 15,085,669.66
Loss Before Capital Contributions	\$ (4,156,888.96)	\$ (3,379,466.16)
<u>Capital Contributions</u>		
Capital Contracts & Grants	\$ -	\$ -
HEFF	2,432,066.33	1,363,307.20
South Dakota Building Authority Capital Financing	-	-
Total Capital Contributions	\$ 2,432,066.33	\$ 1,363,307.20
Increase in Net Position	\$ (1,724,822.63)	\$ (2,016,158.96)
Net Position, Beginning of Year	\$ 79,312,593.13	\$ 81,760,429.53
Prior Period Adjustments	\$ 549,380.63	(431,677.44)
Net Position, End of Year	\$ 78,137,151.12	\$ 79,312,593.13

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, 2018**

NET ASSETS WITHOUT DONOR RESTRICTIONS

Revenues and Other Support:	
Contributions	\$ 191,746
Rental Income	93,816
Management Fee	43,140
Emergency Loan Fees	405
Interest Income	<u>100</u>
Total Revenues and Other Support	329,207
Reclassifications of Net Assets	46,037
Net Assets Released From Restrictions	<u>1,603,328</u>
Total Support and Reclassifications	<u>1,978,572</u>
Expenses:	
Program Services:	
Scholarships and Awards	911,881
University Support	565,590
Alumni Association	50,601
Presidential Support	41,638
Supporting Services:	
Management and General	124,504
Fundraising	<u>175,491</u>
Total Expenses	<u>1,869,705</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>108,867</u>

See the accompanying notes and independent auditor's report.

NET ASSETS WITH DONOR RESTRICTIONS

Restricted by Time or Purpose:	
Contributions	468,888
Grants	112,500
Increase in Cash Surrender Value of Life Insurance	89,048
Investment Losses	(962,543)
Annuity Income	6,466
Reclassifications of Net Assets	(46,037)
Net Assets Released from Restrictions	<u>(1,603,328)</u>
 Change in Net Assets Restricted by Time or Purpose	 <u>(1,935,006)</u>
Restricted in Perpetuity:	
Contributions	<u>399,080</u>
 CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	 <u>(1,535,926)</u>
 CHANGE IN NET ASSETS	 <u>(1,427,059)</u>
NET ASSETS, BEGINNING	<u>21,283,175</u>
 NET ASSETS, ENDING	 <u>\$ 19,856,116</u>

See the accompanying notes and independent auditor's report.

**Black Hills State University Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2018**

	Program Services				Total Programs
	Scholarships and Awards	University Support	Alumni Association	Presidential Support	
Scholarships	\$ 911,881	\$ -	\$ -	\$ -	\$ 911,881
Awards	-	193,925	-	-	193,925
Professional Fees	-	164,489	2,361	-	166,850
Payroll	-	-	-	-	-
Special Projects	-	22,000	-	-	22,000
Depreciation	-	52,018	-	-	52,018
Office Expense	-	54,094	11,761	837	66,692
Meals and Entertainment	-	37,721	19,055	5,384	62,160
Travel	-	7,872	5,293	4,932	18,097
Dues & Fees	-	13,040	227	-	13,267
Advertising	-	3,479	-	-	3,479
President Expenses	-	-	-	8,477	8,477
Insurance	-	-	-	-	-
Alumni Events	-	-	11,835	-	11,835
Interest Expense	-	962	-	21,735	22,697
Occupancy	-	8,171	69	11	8,251
Miscellaneous	-	2,307	-	262	2,569
Provision for Bad Debts	-	5,512	-	-	5,512
Total Expenses	\$ 911,881	\$ 565,590	\$ 50,601	\$ 41,638	\$ 1,569,710

See the accompanying notes and independent auditor's report.

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ -	\$ -	\$ 911,881
-	-	193,925
52,008	31,483	250,341
7,583	86,321	93,904
4,246	-	26,246
31,715	-	83,733
8,731	10,264	85,687
1,686	24,291	88,137
237	5,392	23,726
702	3,198	17,167
178	14,542	18,199
-	-	8,477
12,157	-	12,157
-	-	11,835
-	-	22,697
3,560	-	11,811
8,208	-	10,777
<u>(6,507)</u>	<u>-</u>	<u>(995)</u>
<u>\$ 124,504</u>	<u>\$ 175,491</u>	<u>\$ 1,869,705</u>

See the accompanying notes and independent auditor's report.

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

Cash Flows from Operating Activities	2019	2018
Tuition and Fees, Net of Student Financial Assistance	\$ 16,112,994.47	\$ 16,096,828.80
Auxiliaries, Net Scholarship Allowance	4,138,156.72	4,685,761.38
General Sales & Services	3,434,096.50	2,658,196.25
Federal Contracts & Grants	3,151,080.87	3,662,995.35
State Contracts & Grants	1,182,837.19	946,926.76
Private Contracts & Grants	2,447,383.63	3,281,868.16
Other Revenue and Additions	3,341.93	34,050.85
Loans Issued to Students	-	(261,949.33)
Loans Collected from Students	201,742.00	219,065.30
Student Loan Interest	22,416.20	20,646.11
Payments for Personal Services	(30,313,905.84)	(30,380,151.23)
Payments for Travel	(1,672,036.73)	(1,366,635.43)
Payments for Contractual	(7,291,268.38)	(7,115,671.30)
Payments for Supplies & Materials	(4,068,911.45)	(3,637,070.30)
Payments for Grants	(1,582,099.87)	(2,792,656.75)
Payments for Other Expenditures	(9,697.67)	(724.43)
Net Cash Flows from Operating Activities	\$ (14,243,870.43)	\$ (13,948,519.81)
<u>Cash Flows from Non-Operating Activities</u>		
General Fund Appropriations	\$ 9,655,537.42	\$ 9,837,340.38
School & Public Lands	173,360.00	173,360.00
HEFF	1,026,606.42	850,195.37
Federal Loan Disbursements	(12,865,051.00)	(14,477,906.00)
Federal Loan Receipts	12,865,051.00	14,477,906.00
Federal Capital Contribution - Student Loan	-	(61,327.00)
Net Change in Funds Held for Others	(440,620.24)	(234,506.25)
PELL	4,069,713.63	4,862,642.85
Payments for Other Expenditures	(299,826.00)	(268,756.00)
Net Cash Flows from Non-Operating Activities	\$ 14,184,771.23	\$ 15,158,949.35
<u>Cash Flows from Capital Related Activities</u>		
HEFF	\$ 2,432,066.33	\$ 1,363,307.20
Revenue Bond Discounts and Related Costs	4,877.13	4,877.13
Principal Paid on Capital Debt	(1,055,000.00)	(1,025,000.00)
Interest Paid on Capital Debt	(687,926.13)	(728,711.13)
Purchase of Capital Assets	(2,910,683.90)	(1,809,843.20)
Net Cash Flows from Capital Related Activities	\$ (2,216,666.57)	\$ (2,195,370.00)
<u>Cash Flows from Investing Activities</u>		
Investment Income	\$ 39,585.98	\$ 96,319.94
Net Decrease in Cash	\$ (2,236,179.79)	\$ (888,620.52)
Cash - Beginning of the year	11,788,298.71	12,676,919.23
Cash - End of the year	\$ 9,552,118.92	\$ 11,788,298.71

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Net Operating Revenues (Expenses)		
to Net Cash from Operating Activities		
Operating Loss	\$ (18,444,652.72)	\$ (18,465,135.82)
Adjustments to Reconcile Operating Loss to Net Cash		
<u>from Operating Activities:</u>		
Depreciation Expense	4,505,574.89	4,541,616.42
Bad Debt Expense	151,423.58	10,369.23
Loan Cancellation Expense	31,588.52	76,856.60
<u>Changes in Assets and Liabilities</u>		
Accounts Receivable - Students	(505,145.16)	(93,330.34)
Accounts Receivable - Department Sales	(197,691.13)	(71,875.15)
Notes Receivables	201,742.00	(42,884.03)
Due From Federal Sources	(602,060.73)	387,580.47
Due From Primary Government	254,606.95	(347,311.95)
Due From Other Component Units	(6,456.66)	(8,395.92)
Inventory	717.43	(8,357.98)
Accounts Payable	2,661.85	(233,160.36)
Accrued Wages & Benefits	291,937.95	217,453.13
Due to Primary Government	1,827.52	395.81
Student Deposits	23,264.00	18,610.00
Compensated Absences Payable	(630.55)	71,099.06
Other Accrued Liabilities	(2,857.00)	-
Unearned Revenue	50,278.83	(2,048.98)
Net Cash Used by Operating Activities	\$ (14,243,870.43)	\$ (13,948,519.81)
Noncash Activities		
Loss on Accounts Written Off	\$ -	\$ -
Loss on Disposal of Asset	\$ -	\$ -

Black Hills State University Foundation
Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Donors	\$ 701,736
Rent Receipts	84,469
Other Operating Cash Receipts	43,545
Interest Receipts	351,430
Interest Paid	(26,809)
Cash Payments to Suppliers of Goods and Services	<u>(1,734,003)</u>
Net Cash Used by Operating Activities	<u>(579,632)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net Change in Amounts Held for Others	(241,883)
Receipts on Related-party Notes Receivable	11,839
Purchase of Property and Equipment	(406,091)
Purchases of Investments	(734,400)
Proceeds from Sales of Investments	<u>1,309,830</u>
Net Cash Used by Investing Activities	<u>(60,705)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Contributions Restricted to Permanent Endowment	418,445
Payments on Loan Against Cash Surrender Value of Life Insurance	(93,000)
Payments on Annuity Liability	(66,227)
Principal Paid on Long-term Debt	<u>(27,903)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>231,315</u>

Increase in Cash and Cash Equivalents	(409,022)
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CASH AND CASH EQUIVALENTS - BEGINNING	<u>867,689</u>
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CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 458,667</u></u>
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See the accompanying notes and independent auditor's report.

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

Change in Net Assets	\$ (1,427,059)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation Expense	83,733
Amortization of Pledge Discount	(2,455)
Change in Provision for Bad Debts	(6,507)
Net Realized and Unrealized Gains on Investments	1,227,485
Contributions Restricted to Permanent Endowment	(418,445)
Increase in Cash Surrender Value of Life Insurance Policy	(89,048)
Donations of Securities	(10,547)
Change in Assets and Liabilities:	
Accounts Receivable	(12,967)
Prepaid Expenses	(3,489)
Pledges Receivable	44,280
Accounts Payable	31,767
Deferred Revenue	<u>3,620</u>
Net Cash Used by Operating Activities	<u>\$ (579,632)</u>

See the accompanying notes and independent auditor's report.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

(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, 2019, the University received \$1,000,049.00 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. As no bond requirement exists, management did not maintain the sinking fund in 2019.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

(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, 2019.

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, 2019

(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, 2019

(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's effective date has been extended to FY21 (the University's year ending June 30, 2021).

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

(2) Capital Assets

A summary of changes in Capital Assets follows:

	2018	Prior Period Adjustments	2018 Restated	Additions	Disposals	2019
Land	\$ 234,350.00	\$ -	\$ 234,350.00	\$ -	\$ -	\$ 234,350.00
Building & Building Improvements	107,288,597.95	-	107,288,597.95	884,276.84	-	108,172,874.79
Land Improvements	7,104,706.95	-	7,104,706.95	-	-	7,104,706.95
Infrastructure	10,951,334.84	-	10,951,334.84	-	-	10,951,334.84
Equipment & Other Property		\$0.00				
Equipment	10,385,940.92	(61,853.28)	10,324,087.64	227,473.36	-	10,551,561.00
Library Books**	4,154,171.38	-	4,154,171.38	22,345.18	-	4,176,516.56
Total Assets	\$ 140,119,102.04	\$ (61,853.28)	\$ 140,057,248.76	\$ 1,134,095.38	\$ -	\$ 141,191,344.14
Less Accumulated Depreciation:						
Building & Building Improvements	\$ 35,391,236.40	\$ -	\$ 35,391,236.40	\$ 2,970,755.60	\$ -	\$ 38,361,992.00
Land Improvements	3,140,120.79	-	3,140,120.79	479,801.02	-	3,619,921.81
Infrastructure	5,190,052.33	-	5,190,052.33	406,263.11	-	5,596,315.44
Equipment & Other Property		\$0.00				
Equipment	7,402,525.00	(8,705.50)	7,393,819.50	612,295.39	-	8,006,114.89
Library Books**	4,001,232.14	-	4,001,232.14	36,459.77	-	4,037,691.91
Total Depreciation	\$ 55,125,166.66	\$ (8,705.50)	\$ 55,116,461.16	\$ 4,505,574.89	\$ -	\$ 59,622,036.05
Net Capital Assets	\$ 84,993,935.38	\$ (53,147.78)	\$ 84,940,787.60	\$ (3,371,479.51)	\$ -	\$ 81,569,308.09

**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, 2019

(3) Construction in Progress & Commitments

A summary of changes in Construction in Progress follows:

	2018	Prior Period Adjustment	2018 Restated	Additions	Disposals	2019
Apartments Upgrade	\$ 694,643.85	\$ -	\$ 694,643.85	\$ 189,632.99	\$ (884,276.84)	\$ -
Football Turf and Fencing	-	-	-	158,602.04	-	158,602.04
Wenona Cook Walkway	540.60	-	540.60	187,528.55	-	188,069.15
Bookstore Renovation	-	-	-	2,135,920.78	-	2,135,920.78
Chiller Upgrade	-	-	-	-	-	-
Total Construction in Progress	\$ 695,184.45	\$ -	\$ 695,184.45	\$ 2,671,684.36	\$ (884,276.84)	\$ 2,482,591.97

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

(4) Compensated Absences

A summary of changes in Compensated Absences follows:

	2018	Accrued	Used	2019	Current Portion
Annual Leave	\$ 1,085,463.67	\$ 836,538.02	\$ 850,575.68	\$ 1,071,426.01	\$ 658,317.72
Sick Leave	1,658,426.18	295,286.82	281,879.71	\$ 1,671,833.29	277,482.28
Total Compensated Absences	\$ 2,743,889.85	\$ 1,131,824.84	\$ 1,132,455.39	\$ 2,743,259.30	\$ 935,800.00

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

(5) Bonds Payable and Restricted Net Position

Bonds Payable, Net of Premiums at June 30, 2019:

	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	\$ 1,160,000.00	\$ 157,387.48	\$ 1,317,387.48	\$ 165,182.00
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	8,075,000.00	371,645.09	8,446,645.09	499,058.73
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	4,855,000.00	-	4,855,000.00	405,000.00
2006 Revenue Bond; matures in 2026; semi-annual payments bearing interest at 3.92%; paid with Parking auxiliary revenues	575,000.00	-	575,000.00	75,000.00
Total Bonds Payable, Net Premium	\$ 14,665,000.00	\$ 529,032.57	\$ 15,194,032.57	\$ 1,144,240.73

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, 2019 were **\$2,380,994.99**. Restricted Net Position – Expendable Other of **\$1,878,980.00** 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, 2019

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

The changes in Bonds Payable for the year ended June 30, 2019 follows:

	2018	Proceeds	Payments	2019
2014B Bond	\$ 1,295,000.00	\$ -	\$ (135,000.00)	\$ 1,160,000.00
2014B Premium	182,569.48	-	(25,182.00)	157,387.48
2014A Bond	8,535,000.00	-	(460,000.00)	8,075,000.00
2014A Premium	390,703.82	-	(19,058.73)	371,645.09
2007 Bond	5,245,000.00	-	(390,000.00)	4,855,000.00
2006 Bond	645,000.00	-	(70,000.00)	575,000.00
	\$ 16,293,273.30	\$ -	\$ (1,099,240.73)	\$ 15,194,032.57

Debt service requirements follows:

	Principal	Interest	Total	Premiums
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
	\$ 14,665,000.00	\$ 5,331,678.00	\$ 19,996,678.00	\$ 529,032.57

(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, 2019, 2018, and 2017 were \$1,258,680.00, \$1,252,234.07, and \$1,273,825.09 respectively, equal to the required contributions each year.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

(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, 2019, the University was not involved in any lawsuits.

(10) Tuition and Fees

For the year ending June 30, 2019, the University collected and remitted state support tuition and system fees to the Board of Regents as follows:

State Support Tuition & Fees	\$ 8,766,738.81
HEFF Dollars from State Support Tuition & Fees	2,180,535.34
HEFF Dollars from Self Support Tuition	1,486,564.85
<u>Tuition Remittance to BOR</u>	<u>\$ 12,433,839.00</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, 2019

(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	\$ 8,041,027.00
HEFF (Capital Contribution)	2,432,066.33
HEFF (Non-Operating Revenue)	1,026,606.42
University's Allocation from Board's Tuition and Fees Fund	\$ 11,499,699.75

(11) State Appropriations

The General Fund Appropriation of **\$9,655,537.42** reported on the Statement of Revenues, Expenses, and Changes in Net Position is reflective of the amount spent during the year ending June 30, 2019.

(12) Prior Period Adjustments

Net Position - Beginning of Year	\$ 79,312,593.13
Prior Period Adjustments	
Equipment	(42,328.77)
Due From/To Component Units	17,805.33
Student Receivables/Allowance for Uncollectible	574,549.40
Liabilities, Clearing Funds, Agency Funds	(645.33)
Total Prior Period Adjustments	549,380.63
Net Position - Beginning of Year Restated	\$ 79,861,973.76

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2019

(13) Functional Expenses

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other & Bad Debt Expense	Depreciation	Total
Instruction	\$ 13,004,351.74	\$ 169,437.47	\$ 714,778.71	\$ 377,798.47	\$ 3,125.00	\$ 150.31	\$ 1,509,823.80	\$ 15,779,465.50
Research	743,631.07	73,885.85	79,259.95	235,871.69	154,375.73	1.58	108,038.74	1,395,064.61
Public Service	643,308.59	49,336.18	150,585.46	214,095.14	47,550.00	-	3,140.39	1,108,015.76
Academic Support	3,134,343.04	123,102.01	673,347.90	233,980.63	26,620.00	2.75	320,821.30	4,512,217.63
Student Services	4,619,956.21	1,031,731.36	926,140.36	603,187.16	17,338.26	151,423.58	474,137.91	7,823,914.84
Institutional Support	4,266,487.85	111,023.98	1,237,699.90	232,648.93	24,428.24	6,515.38	205,783.56	6,084,587.84
O&M of Plant	2,538,328.46	62,969.24	961,852.03	899,881.83	-	153.37	1,150,788.64	5,613,973.57
Scholarships	-	-	-	-	2,308,711.64	31,588.52	-	2,340,300.16
Auxiliaries	1,654,806.28	8,550.64	2,591,431.59	1,274,826.88	-	17.28	733,040.55	6,262,673.22
Total	\$ 30,605,213.24	\$ 1,630,036.73	\$ 7,335,095.90	\$ 4,072,290.73	\$ 2,582,148.87	\$ 189,852.77	\$ 4,505,574.89	\$ 50,920,213.13

Other & Bad Debt Expense:

Bad Debt Expense	\$ 151,423.58
Loan Cancellation Expense	31,588.52
Interest	6,840.67
Total & Bad Debt Expense	\$ 189,852.77

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 1 - PURPOSE OF FOUNDATION AND DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Purpose

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.

Program Services

Black Hills State University Foundation is a nonprofit corporation classified by the Internal Revenue Service as tax- exempt under Section 501 (c)(3). The Foundation provides support to Black Hills State University (BHSU) through three different ways. The Foundation provides scholarships and awards to the students of BHSU, provides institutional support of management and special projects related to BHSU, and also develops and maintains relationships with the Alumni of BHSU.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions - Net assets that are not subject to donor/grantor-imposed stipulations.

Net Assets with Donor Restrictions - Net assets that are subject to donor/grantor-imposed time or purpose stipulations. Net assets with Donor restrictions are broken into two categories net assets restricted by time or purpose and net assets restricted in perpetuity.

Net Assets Restricted by Time or Purpose - These 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.

Net Assets Restricted in Perpetuity - 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.

Revenue With and Without Donor Restrictions

Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and and/or nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified and reported as net assets released from restrictions.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give are recorded in the period received. 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

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the Statement of Financial Position. Net investment return/loss is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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 net assets without donor restrictions 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 contributions with donor restrictions. 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.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, 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 2015. 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.

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

Directly identifiable expenses are charged to programs and support services as incurred. Expenses related to more than one function are charged to program and support services based on percentages determined by management.

Accounting Pronouncements Adopted

In August 2016, the FASB issued (ASU) 2016-14, Not-for-Profit Entities: Topic 958. The amendments in this update affect not-for-profit entities and the users of their general-purpose financial statements. In addition to changes in the terminology used to describe categories of net assets throughout the financial statements, the accounting and reporting of investment return and underwater endowments was modified and new disclosures were added. The Foundation adopted this ASU effective for the year ended December 31, 2018.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

Financial Assets Available for Use:	
Cash and Cash Equivalents:	\$ 458,667
Net Pledges Due Within One Year	47,814
Investments	16,833,233
	<u>\$ 17,339,714</u>

The Foundation's assets available for use consist of cash in bank, pledges receivable expected to be collected currently, and investments. These assets are held based on donor restrictions limiting their usage in supporting the students and programs of BHSU. These assets are not available for general distribution.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY (CONTINUED)

The Foundation holds significant financial assets. They are intended to be used to further the Foundation's mission and not for general purposes.

NOTE 4 - PLEDGES RECEIVABLE

As of December 31, 2018, 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	\$ 47,814
Receivable in One to Five Years	69,636
Receivable in More Than Five Years	4,000
Total Pledges Receivable	121,450
Less: Unamortized Discounts to Net Present Value	(4,259)
Less: Allowance for Uncollectible Pledges	(19,844)
Net Pledges Receivable	\$ 97,347

Unconditional pledges receivable due in more than one year are discounted based on the credit worthiness of donors.

NOTE 5 - ASSETS HELD FOR OTHERS

Assets held for others consist of investments and other assets held on behalf of the Yellow Jacket Foundation (YJF) and assets for certain clubs and student groups associated with Black Hills State University. YJF's assets have been pooled in order to generate more investment income and lower fees on investment accounts. Income is allocated based on contributions and withdrawals of each respective organization to the investment pool. Included in assets held for others are life insurance policies in which the YJF is named owner and beneficiary and amounts due to or from YJF for operating expenses.

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, 2018.

NOTE 6 - ENDOWMENT FUNDS

The Foundation's endowment consists various individual funds established for a variety of purposes. 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 donor-restricted endowments restricted in perpetuity 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 donor-restricted endowments restricted by time. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

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 - restricted in perpetuity (a) the original value of the gifts, (b) the original value of subsequent gifts, and (c) accumulations of earnings 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 as net assets with donor restrictions - restricted in perpetuity is classified as net assets with donor restrictions - restricted by time until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net assets, by type of fund, were comprised of the following as of December 31, 2018:

	<u>With Donor Restrictions</u>
Accumulated Investment Earnings	\$ 2,287,530
Restricted in Perpetuity	<u>12,705,076</u>
Total Funds	<u>\$ 14,992,606</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

As of December 31, 2018, all endowment net assets were donor-restricted endowment funds. The composition of and changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Accumulated Earnings Investment	Restricted in Perpetuity	Total Endowment
Endowment Net Assets, Beginning	\$ 3,848,804	\$ 12,305,996	\$ 16,154,800
Repayment of Negative Balances	(40,299)	-	(40,299)
Contributions to Endowment	20,727	399,080	419,807
Net Appreciation on Investments	(772,461)	-	(772,461)
Management Fees Charged to Endowment	(245,823)	-	(245,823)
Purpose Restrictions Accomplished	(523,418)	-	(523,418)
Endowment Net Assets, Ending	<u>\$ 2,287,530</u>	<u>\$ 12,705,076</u>	<u>\$ 14,992,606</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with donor restrictions reported deficiencies of \$150,202. The deficiencies are made up of 66 scholarship funds and range from \$2 to \$21,870. The deficiencies are solely related to market losses on investments during the year. The deficiencies are in the accumulated earnings for each scholarship fund. The Board of Directors has implemented policies to preserve donations to accomplish the purpose of providing scholarships to students. These amounts are expected to be fully recovered subsequent to year end through market gains and fundraising efforts.

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.

Strategies Employed for Achieving Objectives

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.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to the Spending Policy

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 twelve-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.

NOTE 7 - 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, 2018.

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, 2018

NOTE 7 - 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, 2018:

	Level I	Level II	Total
Certificates of Deposit	\$ 912,515	\$ -	\$ 912,515
Mutual Funds:			
Global Mixed	273,684	-	273,684
Domestic Equity	113,147	-	113,147
US Treasury Bond Funds	107,587	-	107,587
Fixed Income	3,067,539	-	3,067,539
International Equity	2,458,076	-	2,458,076
Floating Rate Funds	96,703	-	96,703
Large Cap	4,786,886	-	4,786,886
Mid Cap	982,892	-	982,892
Mortgage Security Bond Funds	383,751	-	383,751
Small Cap	81,130	-	81,130
Real Estate	-	166,701	166,701
Municipal Bonds	-	1,500,462	1,500,462
Structured Debt	-	699,910	699,910
Corporate Bonds:			
Utilities	-	20,352	20,352
Financial	187,027	573,320	760,347
Consumer Goods	-	116,815	116,815
Healthcare	-	26,182	26,182
Conglomerates	-	278,556	278,556
Total Investments	<u>\$ 13,450,936</u>	<u>\$ 3,382,297</u>	<u>\$ 16,833,233</u>
Short-term Investments:			
Cash and Cash Equivalents	<u>\$ 779,516</u>	<u>\$ -</u>	<u>\$ 779,516</u>
Annuity Liabilities	<u>\$ -</u>	<u>\$ 231,627</u>	<u>\$ 231,627</u>

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.

Real Estate Mutual Funds, 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.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 7 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

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 4.

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 10.

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 8 - 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 \$19,238 as of December 31, 2018. Therefore, the value recorded represents contract value less the proceeds from the loan.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 consisted of the following:

Land	\$ 608,246
Buildings and Improvements	2,933,456
Equipment and Furnishings	261,150
	3,802,852
Less: Accumulated Depreciation	(491,336)
Property and Equipment, Net of Accumulated Depreciation	\$ 3,311,516

NOTE 10 - 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 restricted by time or purpose. 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 restricted by time or purpose. 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 11 - LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2018:

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.	\$ 602,829
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Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

NOTE 11 - LONG-TERM DEBT (CONTINUED)

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

For the Year Ending December 31,		
2018	\$	12,762
2019		13,382
2020		14,032
2021		14,713
2022		15,427
Thereafter		532,513
		<u>\$ 602,829</u>

During the year ended December 31, 2018, the Foundation incurred \$21,016 of interest expense related to the notes payable.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions, restricted by time or purpose, are available for the following purposes or periods:

Scholarships	\$	1,912,244
Fine Arts Fund		857,248
Welcome Center		1,184,129
Time Restriction on Long-term Receivables		97,347
Time Restriction on Life Insurance		<u>1,540,298</u>
 Total Net Assets Restricted by Time or Purpose		 <u>\$ 5,591,266</u>

Net assets with donor restrictions, restricted in perpetuity, consist of endowment funds which are to be held indefinitely (see Note 6). The earnings from the related assets can be used to support the Foundation's scholarship, award, and grant activities.

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS AND RECLASSIFICATIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Purpose Restrictions Accomplished:		
Scholarships Awarded	\$	858,751
BHSU Departmental Support		460,396
Management Fee Charged to Endowments		284,181
		<u>\$ 1,603,328</u>

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

	Without Donor Restriction	With Donor Restriction
Reclassification of Net Assets Due to Prior Year Deficit Spending	<u>\$ 46,037</u>	<u>\$ (46,037)</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2018

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.

During the year ended December 31, 2018 rental income was received from a lease agreement with the University for the University President's residence. As of December 31, 2018, 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 \$97,610 as of December 31, 2018.

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 \$299,826 for the year ended December 31, 2018, 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 62% of the pledges receivable balance at December 31, 2018 consisted of pledges from three donors.

NOTE 16 - EMERGING ACCOUNTING STANDARDS

During the year ended December 31, 2019, the Foundation plans to implement FASB Topic 606. This standard will specify the recognition criteria for revenue related to contributions and contracts. The effects of the implementation of the standard cannot be readily determined.

During the year ended December 31, 2020 The Foundation plans to implement FASB Topic 842. This update requires the recording of lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. The Foundation is in the process of assessing the effect on the financial statements.

During the year ended December 31, 2020, the Foundation plans to implement the revisions to FASB Topic 958. This update clarifies and improves guidance about whether a transfer of assets is a contribution or exchange transaction, for purposes of determining revenue recognition. The Foundation is in the process of assessing the effect on the financial statements.

During the year ended December 31, 2020, the Foundation plans to implement the revisions to FASB Topic 820. This update modifies the disclosure requirements on fair value. The Foundation is in the process of assessing the effect on the financial statements

NOTE 17 - 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.