

**BLACK HILLS STATE
UNIVERSITY FOUNDATION**

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

**Black Hills State University Foundation
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December 31, 2019 and 2018**

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Independent Auditor's Report

Board of Directors
Black Hills State University Foundation
Spearfish, South Dakota

We have audited the accompanying financial statements of Black Hills State University Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hills State University Foundation as of December 31, 2019 and 2018, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
September 30, 2020

FINANCIAL STATEMENTS

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Black Hills State University Foundation
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 1,075,169	\$ 458,667
Short-term Investments	691,939	779,516
Other Receivables	15,442	12,967
Prepaid Expenses	10,865	10,096
Promises to Give	75,399	97,347
Investments	18,820,514	16,833,233
Cash Surrender Value of Life Insurance	1,651,398	1,540,298
Collections	44,895	44,895
Property and Equipment, Net	3,223,194	3,311,516
TOTAL ASSETS	\$ 25,608,815	\$ 23,088,535
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 292,970	\$ 141,903
Assets Held for Others	2,042,367	2,231,440
Unearned Rent Revenue	21,000	24,620
Annuity Liability	150,718	231,627
Long-term Debt	589,626	602,829
Total Liabilities	3,096,681	3,232,419
Net Assets:		
Without Donor Restrictions	326,174	35,216
Without Donor Restriction, Net Investment in Property	2,633,568	2,708,687
With Donor Restrictions:		
Restricted by Time or Purpose	6,202,737	4,407,137
Restricted in Perpetuity	13,349,655	12,705,076
Total Net Assets	22,512,134	19,856,116
TOTAL LIABILITIES AND NET ASSETS	\$ 25,608,815	\$ 23,088,535

See the accompanying notes and independent auditor's report.

Black Hills State University Foundation
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Other Support:		
Contributions	\$ 250,709	\$ 191,746
Rental Income	115,309	93,816
Management Fee	48,370	43,140
Emergency Loan Fees	1,616	405
Interest Income	3,450	100
Total Revenues and Other Support	419,454	329,207
Reclassifications of Net Assets	899	46,037
Net Assets Released from Restrictions	1,760,370	1,551,310
Total Support and Reclassifications	2,180,723	1,926,554
Expenses:		
Program Services:		
Scholarships and Awards	988,652	911,881
University Support	454,539	565,590
Alumni Association	92,143	50,601
Presidential Support	48,970	41,638
Supporting Services:		
Management and General	212,291	124,504
Fundraising	168,289	175,491
Total Expenses	1,964,884	1,869,705
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	215,839	56,849

See the accompanying notes and independent auditor's report.

	<u>2019</u>	<u>2018</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted by Time or Purpose:		
Contributions	523,194	468,888
Grants	224,719	112,500
Increase in Cash Surrender Value of Life Insurance	90,150	89,048
Investment Return (Losses)	2,718,806	(962,543)
Annuity Income	-	6,466
Reclassifications of Net Assets	(899)	(46,037)
Net Assets Released from Restrictions	<u>(1,760,370)</u>	<u>(1,551,310)</u>
Change in Net Assets Restricted by Time or Purpose	1,795,600	(1,882,988)
Restricted in Perpetuity:		
Contributions	<u>644,579</u>	<u>399,080</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>2,440,179</u>	<u>(1,483,908)</u>
CHANGE IN NET ASSETS	2,656,018	(1,427,059)
NET ASSETS, BEGINNING	<u>19,856,116</u>	<u>21,283,175</u>
NET ASSETS, ENDING	<u>\$ 22,512,134</u>	<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, 2019

	Program Services				Total Programs
	Scholarships and Awards	University Support	Alumni Association	Presidential Support	
Scholarships	\$ 988,652	\$ -	\$ -	\$ -	\$ 988,652
Awards	-	228,709	793	-	229,502
Professional Fees	-	83,896	2,656	-	86,552
Meals and Entertainment	-	31,604	43,286	6,650	81,540
Payroll	-	-	-	-	-
Depreciation	-	50,933	-	-	50,933
Office Expense	-	18,000	7,392	214	25,606
Provision for Bad Debts	-	-	-	-	-
Dues and Fees	-	1,902	10,657	-	12,559
Interest Expense	-	-	-	31,983	31,983
Occupancy	-	12,993	-	-	12,993
Alumni Events	-	-	24,727	-	24,727
Travel	-	14,905	2,055	-	16,960
Insurance	-	-	-	-	-
President Expenses	-	-	-	10,094	10,094
Special Projects	-	4,258	-	-	4,258
Advertising	-	1,010	425	-	1,435
Miscellaneous	-	6,329	152	29	6,510
	<u>\$ 988,652</u>	<u>\$ 454,539</u>	<u>\$ 92,143</u>	<u>\$ 48,970</u>	<u>\$ 1,584,304</u>

See the accompanying notes and independent auditor's report.

<u>Supporting Services</u>		
<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ -	\$ -	\$ 988,652
-	-	229,502
33,535	24,666	144,753
2,540	24,408	108,488
8,215	87,844	96,059
37,389	-	88,322
27,583	7,543	60,732
52,075	-	52,075
10,161	13,611	36,331
-	-	31,983
14,970	-	27,963
-	-	24,727
2,197	4,826	23,983
12,835	-	12,835
-	-	10,094
3,367	-	7,625
562	5,391	7,388
6,862	-	13,372
<u>\$ 212,291</u>	<u>\$ 168,289</u>	<u>\$ 1,964,884</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	-	-	-	-	-
Meals and Entertainment	-	37,721	19,055	5,384	62,160
Office Expense	-	54,094	11,761	837	66,692
Depreciation	-	52,018	-	-	52,018
Special Projects	-	22,000	-	-	22,000
Travel	-	7,872	5,293	4,932	18,097
Interest Expense	-	962	-	21,735	22,697
Advertising	-	3,479	-	-	3,479
Dues and Fees	-	13,040	227	-	13,267
Insurance	-	-	-	-	-
Alumni Events	-	-	11,835	-	11,835
Occupancy	-	8,171	69	11	8,251
President Expenses	-	-	-	8,477	8,477
Miscellaneous	-	2,307	-	262	2,569
Provision for Bad Debts	-	5,512	-	-	5,512
	<u>\$ 911,881</u>	<u>\$ 565,590</u>	<u>\$ 50,601</u>	<u>\$ 41,638</u>	<u>\$ 1,569,710</u>

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
1,686	24,291	88,137
8,731	10,264	85,687
31,715	-	83,733
4,246	-	26,246
237	5,392	23,726
-	-	22,697
178	14,542	18,199
702	3,198	17,167
12,157	-	12,157
-	-	11,835
3,560	-	11,811
-	-	8,477
8,208	-	10,777
(6,507)	-	(995)
<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 Foundation
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Donors	\$ 832,179	\$ 701,736
Rent Receipts	111,689	84,469
Other Operating Cash Receipts	49,986	43,545
Interest Receipts	389,510	351,430
Interest Paid	(32,811)	(26,809)
Cash Payments to Suppliers of Goods and Services	<u>(1,637,014)</u>	<u>(1,734,003)</u>
Net Cash Used by Operating Activities	<u>(286,461)</u>	<u>(579,632)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Amounts Held for Others	(190,511)	(241,883)
Receipts on Related-party Notes Receivable	-	11,839
Purchase of Property and Equipment	-	(406,091)
Purchases of Investments	(905,784)	(734,400)
Proceeds from Sales of Investments	<u>1,455,277</u>	<u>1,309,830</u>
Net Cash Provided (Used) by Investing Activities	<u>358,982</u>	<u>(60,705)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions Restricted to Permanent Endowment	657,602	418,445
Payments on Loan Against Cash Surrender Value of Life Insurance	(19,512)	(93,000)
Payments on Annuity Liability	(80,909)	(66,227)
Principal Paid on Long-term Debt	<u>(13,200)</u>	<u>(27,903)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>543,981</u>	<u>231,315</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	616,502	(409,022)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>458,667</u>	<u>867,689</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,075,169</u>	<u>\$ 458,667</u>

See the accompanying notes and independent auditor's report.

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,656,018	\$ (1,427,059)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation Expense	88,322	83,733
Amortization of Pledge Discount	(735)	(2,455)
Change in Provision for Bad Debts	(14,239)	(6,507)
Net Realized and Unrealized Gains on Investments	(2,409,937)	1,227,485
Contributions Restricted to Permanent Endowment	(657,602)	(418,445)
Increase in Cash Surrender Value of Life Insurance Policy	(90,150)	(89,048)
Donations of Securities	(39,263)	(10,547)
Change in Assets and Liabilities:		
Other Receivables	(2,475)	(12,967)
Prepaid Expenses	(769)	(3,489)
Promises to Give	36,922	44,280
Accounts Payable	151,067	31,767
Unearned Rent Revenue	<u>(3,620)</u>	<u>3,620</u>
Net Cash Used by Operating Activities	<u>\$ (286,461)</u>	<u>\$ (579,632)</u>

See the accompanying notes and independent auditor's report.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2019 and 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) in 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 Statements of Cash Flows.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Consequently, at December 31, 2019, contributions approximating \$12,762,000, have not been recognized in the accompanying Statements of Activities because the conditions on which they depend have not yet been met. The conditional contributions are subject to donors modifying their intent.

A portion of the Foundation's revenue is derived from cost-reimbursable federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses by departments of the University. Amounts received are recognized as revenue when the Foundation (University Department) has incurred expenditures in compliance with specific contract provisions.

The Foundation derives revenues from rents of properties owned. Rents are recognized for the use of facilities at the time space is available to the tenant for occupation. Rents of the Joy Center require a deposit prior to use. Rent receivables represent amounts due from tenants for deposits. Unearned rent revenue represents prepayments of rent by the University to the Foundation for use of the President's residence.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met or explicitly waived by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of discounted future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted for use after the due date. Promises that remain uncollected for more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

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.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Land is not a depreciable asset.

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

Contributed Materials and Services

The Foundation records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. Total contributed materials and services recognized for the years ended December 31, 2019 and 2018 were \$85,005 and \$70,908 respectively.

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, 2019, 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 2016. 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, 2019 and 2018

NOTE 2 - 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

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

The Foundation early adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers Topic (606) on January 1, 2019. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative-effect adjustment was recorded upon adoption.

The Foundation early adopted (ASU) 2018-08, Not-for-Profit Entities: Topic 958 on January 1, 2019. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The adoption of this standard did not result in material changes to the recognition or presentation of revenue.

Reclassifications

Certain amounts in the financial statements and related notes for the Foundation, for the year ended December 31, 2018, have been reclassified to conform to the presentation in the financial statements for the year ended December 31, 2019.

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:

	2019	2018
Financial Assets Available for Use:		
Cash and Cash Equivalents	\$ 1,075,169	\$ 458,667
Other Receivables	15,442	12,967
Net Pledges Due Within One Year	40,457	47,814
Short-term Investments	691,939	779,516
Investments	18,820,514	16,833,233
	\$ 20,643,521	\$ 18,132,197

The Foundation's assets available for use consist of cash in bank, other receivables, 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.

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

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE 4 - PROMISES TO GIVE

As of December 31, 2019 and 2018, pledges receivable included unconditional promises to give for the establishment of scholarship funds. These pledges are due as follows:

	2019	2018
Receivable in Less Than One Year	\$ 40,457	\$ 47,814
Receivable in One to Five Years	42,904	69,636
Receivable in More Than Five Years	1,167	4,000
Total Pledges Receivable	84,528	121,450
Less: Unamortized Discounts to Net Present Value	(3,524)	(4,259)
Less: Allowance for Uncollectible Pledges	(5,605)	(19,844)
Net Pledges Receivable	\$ 75,399	\$ 97,347

Unconditional promises to give due in more than one year are discounted based on the creditworthiness of donors. The discount rate used was 3.25%.

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 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, 2019 and 2018.

NOTE 6 - ENDOWMENT FUNDS

The Foundation's endowment consists of 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, 2019 and 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:

	2019	2018
With Donor Restrictions:		
Accumulated Investment Earnings	\$ 2,287,530	\$ 2,287,530
Restricted in Perpetuity	3,818,596	13,349,655
Total Funds	\$ 6,106,126	\$ 15,637,185

Black Hills State University Foundation
Notes to the Financial Statements
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NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

As of December 31, 2019, all endowment net assets were donor-restricted endowment funds. The composition of and changes in endowment net assets for the years ended December 31 were as follows:

	2019		
	Accumulated Earnings Investment	Restricted in Perpetuity	Total Endowment
Endowment Net Assets, Beginning	\$ 2,287,530	\$ 12,705,076	\$ 14,992,606
Contributions to Endowment	51,015	644,579	695,594
Net Appreciation on Investments	2,566,362	-	2,566,362
Management Fees Charged to Endowment	(483,586)	-	(483,586)
Purpose Restrictions Accomplished	(602,725)	-	(602,725)
Endowment Net Assets, Ending	<u>\$ 3,818,596</u>	<u>\$ 13,349,655</u>	<u>\$ 17,168,251</u>
	2018		
	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, 2019 and 2018, there were no donor-restricted funds with deficiencies.

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
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NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

Strategies Employed for Achieving Objectives

To achieve its investment objectives over long periods, the Foundation has adopted an investment strategy that allows for the investment of assets in pooled funds or 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.

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 returns.

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 that 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 that 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, 2019 and 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.

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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:

	2019		
	Level I	Level II	Total
Certificates of Deposit	\$ 833,816	\$ -	\$ 833,816
Mutual Funds:			
Global Mixed	-	954,773	954,773
Domestic Equity	449,788	-	449,788
US Treasury Bond Funds	511,688	-	511,688
Fixed Income	3,398,748	-	3,398,748
International Equity	2,464,814	148,185	2,612,999
Floating Rate Funds	308,338	-	308,338
Large Cap	2,595,782	-	2,595,782
Mid Cap	946,401	-	946,401
Mortgage Security Bond Funds	89,827	-	89,827
Alternative Investment Funds	33,227	-	33,227
Small Cap	437,381	-	437,381
Real Estate	37,778	171,955	209,733
Municipal Bonds	-	818,423	818,423
Equity Securities			
Technology	266,654	-	266,654
Consumer Services	1,329,563	-	1,329,563
Utilities	48,912	-	48,912
Healthcare	119,604	-	119,604
Financial	737,751	-	737,751
Industrial Goods	45,317	-	45,317
Basic Materials	21,152	-	21,152
Consumer Goods	278,355	-	278,355
Energy	5,464	-	5,464
Structured Debt		199,346	199,346
Exchange Traded Funds	11,614	-	11,614
Corporate Bonds:			
Utilities	-	88,104	88,104
Financial	-	1,236,344	1,236,344
Consumer Goods	-	115,635	115,635
Healthcare	-	25,190	25,190
Conglomerates	-	90,585	90,585
Total Investments	<u>\$ 14,971,974</u>	<u>\$ 3,848,540</u>	<u>\$ 18,820,514</u>
Short-term Investments:			
Cash and Cash Equivalents	<u>\$ 691,939</u>	<u>\$ -</u>	<u>\$ 691,939</u>
Annuity Liabilities	<u>\$ -</u>	<u>\$ 150,718</u>	<u>\$ 150,718</u>

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Notes to the Financial Statements
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NOTE 7 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

	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.

Global Mixed Mutual Funds, International Equity Mutual Funds, 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, they 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, 2019 and 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 creditworthiness 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% - 2.40% 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 to finance the cost of construction of the Alumni Center. The loan was paid off during the year ended December 31, 2019. The balance of the loan against the policy was \$19,238 as of December 31, 2018. Therefore, the value recorded represented the contract value less the outstanding loan balance.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	2019	2018
Land	\$ 608,246	\$ 608,246
Buildings and Improvements	2,933,456	2,933,456
Equipment and Furnishings	261,150	261,150
	3,802,852	3,802,852
Less: Accumulated Depreciation	(579,658)	(491,336)
Property and Equipment, Net of Accumulated Depreciation	\$ 3,223,194	\$ 3,311,516

Depreciation expense for the periods ending December 31, 2019 and 2018, were \$88,322 and \$83,733, respectively.

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.

Black Hills State University Foundation
Notes to the Financial Statements
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NOTE 11 - LONG-TERM DEBT

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

	2019	2018
Note payable to a bank due in monthly installments of \$3,436 including 4.75% interest, due in 2044. This note is secured by real estate.	\$ 589,626	\$ 602,829

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

For the Year Ending December 31,		
2020	\$	13,518
2021		13,382
2022		14,862
2023		15,452
2024		17,624
Thereafter		514,788
	\$	589,626

During the years ended December 31, 2019 and 2018, the Foundation incurred \$28,035 and \$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:

	2019	2018
Scholarships	\$ 3,541,845	\$ 1,912,244
Fine Arts Fund	934,095	857,248
Time Restriction on Promises to Give	75,399	97,347
Time Restriction on Life Insurance	1,651,398	1,540,298
Total Net Assets Restricted by Time or Purpose	\$ 6,202,737	\$ 4,407,137

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.

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Notes to the Financial Statements
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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.

	2019	2018
Purpose Restrictions Accomplished:		
Scholarships Awarded	\$ 863,657	\$ 858,751
BHSU Departmental Support	353,341	408,378
Management Fee Charged to Endowments	543,372	284,181
	\$ 1,760,370	\$ 1,551,310

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

2019		
	Without Donor Restriction	With Donor Restriction
Reclassification of Net Assets Due to Clarification of Donor Intent	\$ 899	\$ (899)
2018		
	Without Donor Restriction	With Donor Restriction
Reclassification of Net Assets Due to Prior Year Deficit Spending	\$ 46,037	\$ (46,037)

A reclassification of equity from with donor restrictions to without donor restrictions in the amount of \$1,184,129 for the year ended December 31, 2018 is reflected in the statement of financial position. This reclassification related to the implementation of ASU 2-16-14 and the release of donated assets that were placed into service in a prior year, in accordance with this standard. The reclassification also required the related depreciation expense for these assets to be removed from the released from restrictions total in 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 years ended December 31, 2019 and 2018 rental income was received from a lease agreement with the University for the University President's residence. As of December 31, 2019 and 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 \$123,782 as of December 31, 2019 and \$97,610 as of December 31, 2018.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE 14 - RELATED-PARTY TRANSACTIONS (CONTINUED)

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 \$308,258 and \$299,826 for the years ended December 31, 2019 and 2018, respectively, 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 - LEASES

During the year ended December 31, 2018, the Foundation purchased several properties that were adjacent to campus for future expansion needs. The properties include homes that are currently being rented to unrelated third parties. Lease agreements for these properties are on a month-to-month basis and range from \$600 to \$975 per month. Total rent revenues for the years ended December 31, 2019 and 2018 were \$29,940 and \$12,000, respectively. The cost of assets included in property and equipment being leased totaled \$199,091. Accumulated depreciation related to these assets was \$16,592 as of December 31, 2019 and \$5,543 as of December 31, 2018.

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 76% and 62% of the pledges receivable balance at December 31, 2019 and 2018 consisted of pledges from four and three donors, respectively.

NOTE 16 - EMERGING ACCOUNTING STANDARDS

During the year ended December 31, 2021, 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 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 to year-end, the novel virus COVID-19 created a worldwide pandemic. The pandemic caused many jurisdictions to declare states of emergency which forced the closure of businesses, schools, and government offices. The disruption is expected to be temporary, but effects may continue for some time. The extent of the impact of COVID-19 on the Foundation's operations will depend on developments including the duration and spread of the outbreak, impact on donors and staff, and University operations which are uncertain and cannot be predicted. In addition, there has been significant volatility impacting the Foundation's investments. There has been no immediate impact on the Foundation's operations; however, there is a possibility that operations could be negatively impacted.

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.