

**BLACK HILLS STATE
UNIVERSITY FOUNDATION**

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

DECEMBER 31, 2018

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Black Hills State University Foundation
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December 31, 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 statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the changes in its net assets and its cash flows for the year 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 9, 2019

FINANCIAL STATEMENTS

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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 **\$ 23,088,535**

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 3,232,419

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 19,856,116

TOTAL LIABILITIES AND NET ASSETS **\$ 23,088,535**

See the accompanying notes and independent auditor's report.

**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
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Reclassifications of Net Assets	46,037
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Net Assets Released From Restrictions	<u>1,603,328</u>
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Total Support and Reclassifications	<u>1,978,572</u>
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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>
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CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>108,867</u>
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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 (1,935,006)

Restricted in Perpetuity:

Contributions	<u>399,080</u>
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CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS (1,535,926)**CHANGE IN NET ASSETS** (1,427,059)**NET ASSETS, BEGINNING** 21,283,175**NET ASSETS, ENDING** \$ 19,856,116

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 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>\$ 458,667</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 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	<u>16,833,233</u>
	<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	<u>4,000</u>
Total Pledges Receivable	121,450
Less: Unamortized Discounts to Net Present Value	(4,259)
Less: Allowance for Uncollectible Pledges	<u>(19,844)</u>
Net Pledges Receivable	<u>\$ 97,347</u>

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 Restricted in Perpetuity	\$ 2,287,530 <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:

	<u>Level I</u>	<u>Level II</u>	<u>Total</u>
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
	<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
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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	<u>261,150</u>
	3,802,852
Less: Accumulated Depreciation	<u>(491,336)</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 3,311,516</u>

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		<u>532,513</u>
	\$	<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		<u>284,181</u>
	\$	<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
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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.