

BLACK HILLS STATE UNIVERSITY FOUNDATION
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020 AND 2019



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

BLACK HILLS STATE UNIVERSITY FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Black Hills State University
Spearfish, South Dakota

We have audited the accompanying financial statements of **BLACK HILLS STATE UNIVERSITY FOUNDATION** (the Foundation, a nonprofit organization) which comprise the statement of financial position as of December 31, 2020, and the related statement of activities and changes in net assets, 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 Foundation'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 Foundation'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, 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Black Hills State University Foundation
Independent Auditor's Report

Prior Period Financial Statements

The financial statements of **BLACK HILLS STATE UNIVERSITY FOUNDATION** as of December 31, 2019, were audited by other auditors whose report dated September 30, 2020, expressed an unmodified opinion on those financial statements.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 24, 2021

BLACK HILLS STATE UNIVERSITY FOUNDATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019**

ASSETS	2020	2019
Cash and Cash Equivalents (Note 2)	\$ 1,360,331	\$ 1,075,169
Investments (Notes 2, 6, and 7)	22,661,525	19,512,453
Unconditional Promises to Give, Net (Note 3)	537,915	75,399
Rental Real Estate, Net (Note 4)	1,561,214	1,598,448
Prepaid Expenses	9,223	10,865
Property and Equipment, Net (Notes 5, 8 and 13)	1,571,848	1,624,746
Cash Surrender Value of Life Insurance	1,741,537	1,651,398
Collections	44,895	44,895
Other Receivables	24,415	15,442
TOTAL ASSETS	\$ 29,512,903	\$ 25,608,815
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 93,133	\$ 292,970
Assets Held for Others (Note 7)	2,434,839	2,042,367
Unearned Rent Revenue	21,000	21,000
Liability under Charitable Gift Annuity (Note 6)	95,890	150,718
Long-term Debt (Note 8)	576,261	589,626
Total Liabilities	3,221,123	3,096,681
Net Assets		
Without Donor Restrictions	429,403	326,174
Without Donor Restrictions, Net Investment in Property	2,556,801	2,633,568
Total Net Assets Without Donor Restrictions	2,986,204	2,959,742
With Donor Restrictions - Purpose and Time (Notes 9 and 11)	7,447,573	6,202,737
With Donor Restrictions - Perpetual (Notes 10 and 11)	15,858,003	13,349,655
Total Net Assets With Donor Restrictions	23,305,576	19,552,392
Total Net Assets	26,291,780	22,512,134
TOTAL LIABILITIES AND NET ASSETS	\$ 29,512,903	\$ 25,608,815

The accompanying notes are an integral part of these statements.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020, WITH COMPARATIVE TOTALS FOR 2019**

	----- 2020 -----			2019 Total	
	Without Donor Restrictions	With Donor Restrictions			
		Purpose and Time	Perpetual		
Support, Gains, and Revenues					
Contributions	\$ 91,941	\$ 544,097	\$ 2,508,348	\$ 3,144,386	\$ 1,335,093
In-Kind Contributions	355,226	1,156	-	356,382	393,263
Net Investment Return, Including Net Realized and Unrealized Gain and Rental Real Estate (Net of Fees and Expenses of \$73,382 and \$72,151 for the Years Ended December 31, 2020 and 2019, Respectively)	107,366	2,078,976	-	2,186,342	2,837,565
Grants	-	250,000	-	250,000	224,719
Increase in Cash Surrender Value of Life Insurance	-	90,139	-	90,139	90,150
Management Fee	-	-	-	-	48,370
Net Assets Released from Restrictions (Note 9)	1,719,532	(1,719,532)	-	-	-
Total Support, Gains, and Revenues	2,274,065	1,244,836	2,508,348	6,027,249	4,929,160
Expenses					
<i>Program Services:</i>					
Scholarships and Awards	1,183,885	-	-	1,183,885	988,652
University Support	456,456	-	-	456,456	454,539
Presidential Support	38,726	-	-	38,726	48,970
Alumni Support	28,577	-	-	28,577	92,143
Total Program Services	1,707,644	-	-	1,707,644	1,584,304
<i>Supporting Services:</i>					
Administrative	445,195	-	-	445,195	474,310
Fundraising	94,764	-	-	94,764	214,528
Total Supporting Services	539,959	-	-	539,959	688,838
Total Expenses	2,247,603	-	-	2,247,603	2,273,142
Change in Net Assets	26,462	1,244,836	2,508,348	3,779,646	2,656,018
Net Assets -- Beginning of Year	2,959,742	6,202,737	13,349,655	22,512,134	19,856,116
Net Assets -- End of Year	2,986,204	7,447,573	15,858,003	26,291,780	22,512,134

The accompanying notes are an integral part of this statement.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	----- 2019 -----			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Purpose and Time	Perpetual	
Support, Gains, and Revenues				
Contributions	\$ 168,219	\$ 522,295	\$ 644,579	\$ 1,335,093
In-Kind Contributions	393,263	-	-	393,263
Net Investment Return, Including Net Realized and Unrealized Gain and Rental Real Estate (Net of Fees and Expenses of \$72,151 for the Year Ended December 31, 2019)	118,759	2,718,806	-	2,837,565
Grants	-	224,719	-	224,719
Increase in Cash Surrender Value of Life Insurance	-	90,150	-	90,150
Management Fee	48,370	-	-	48,370
Net Assets Released from Restrictions (Note 9)	1,760,370	(1,760,370)	-	-
Total Support, Gains, and Revenues	2,488,981	1,795,600	644,579	4,929,160
Expenses				
<i>Program Services:</i>				
Scholarships and Awards	988,652	-	-	988,652
University Support	454,539	-	-	454,539
Presidential Support	48,970	-	-	48,970
Alumni Association	92,143	-	-	92,143
Total Program Services	1,584,304	-	-	1,584,304
<i>Supporting Services:</i>				
Administrative	474,310	-	-	474,310
Fundraising	214,528	-	-	214,528
Total Supporting Services	688,838	-	-	688,838
Total Expenses	2,273,142	-	-	2,273,142
Change in Net Assets	215,839	1,795,600	644,579	2,656,018
Net Assets -- Beginning of Year	2,743,903	4,407,137	12,705,076	19,856,116
Net Assets -- End of Year	\$ 2,959,742	\$ 6,202,737	\$ 13,349,655	\$ 22,512,134

The accompanying notes are an integral part of this statement.

BLACK HILLS STATE UNIVERSITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2020, WITH COMPARATIVE TOTALS FOR 2019

	----- 2020 -----			
	Program			
	Scholarships and Awards	University Support	Presidential Support	Alumni
Scholarships	\$ 1,183,885	\$ 800	\$ -	\$ -
Salary Reimbursements	-	-	-	-
Awards	-	199,131	-	-
Professional Fees	-	74,248	-	10,290
Miscellaneous	-	79,985	-	200
Depreciation	-	40,664	-	-
Supplies	-	23,620	100	325
Interest	-	-	27,870	-
Meals and Entertainment	-	6,033	909	5,819
Repairs and Maintenance	-	5,792	301	-
Insurance	-	2,826	-	-
Speakers	-	10,000	-	-
Gifts and Memorials	-	304	35	8,651
Presidential Support	-	-	9,430	-
Taxes and Penalties	-	187	-	539
Bad Debt Expense	-	1,000	-	-
Advertising	-	4,653	-	-
Property Expense	-	4,376	-	250
Travel	-	1,789	23	669
Printing	-	69	58	-
Dues and Fees	-	628	-	1,770
Special Projects	-	12	-	-
Postage	-	194	-	64
Promotional	-	145	-	-
	\$ 1,183,885	\$ 456,456	\$ 38,726	\$ 28,577

The accompanying notes are an integral part of this statement.

Administrative	Fundraising	Total	2019 Total
\$ -	\$ -	\$ 1,184,685	\$ 995,322
290,358	46,365	336,723	404,317
-	-	199,131	137,647
37,288	22,493	144,319	144,753
15,552	-	95,737	114,266
49,468	-	90,132	88,322
3,426	9,743	37,214	50,716
2,315	-	30,185	32,811
1,541	14,575	28,877	108,488
11,924	-	18,017	5,070
14,722	-	17,548	12,835
-	-	10,000	277
340	245	9,575	32,543
-	-	9,430	7,787
8,098	9	8,833	14,039
6,867	-	7,867	52,075
-	50	4,703	876
-	-	4,626	4,620
624	371	3,476	23,983
2,040	144	2,311	1,799
632	-	3,030	36,331
-	738	750	3,133
-	-	258	152
-	31	176	980
\$ 445,195	\$ 94,764	\$ 2,247,603	\$ 2,273,142

BLACK HILLS STATE UNIVERSITY FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program			
	Scholarships and Awards	University Support	Presidential Support	Alumni
Scholarships	\$ 988,652	\$ 6,322	\$ -	\$ -
Salary Reimbursements	-	-	-	-
Awards	-	136,854	-	793
Professional Fees	-	83,896	-	2,656
Miscellaneous	-	98,725	-	-
Depreciation	-	50,933	-	-
Supplies	-	17,654	214	7,392
Interest	-	828	31,983	-
Meals and Entertainment	-	31,604	6,650	43,286
Repairs and Maintenance	-	-	-	-
Insurance	-	-	-	-
Speakers	-	277	-	-
Gifts and Memorials	-	848	2,307	24,727
Presidential Support	-	-	7,787	-
Taxes and Penalties	-	533	29	152
Bad Debt Expense	-	-	-	-
Advertising	-	50	-	-
Property Expense	-	4,620	-	-
Travel	-	14,905	-	2,055
Printing	-	389	-	425
Dues and Fees	-	1,902	-	10,657
Special Projects	-	3,133	-	-
Postage	-	106	-	-
Promotional	-	960	-	-
	\$ 988,652	\$ 454,539	\$ 48,970	\$ 92,143

The accompanying notes are an integral part of this statement.

Administrative	Fundraising	Total
\$ 348	\$ -	\$ 995,322
270,234	134,083	404,317
-	-	137,647
33,535	24,666	144,753
15,541	-	114,266
37,389	-	88,322
18,054	7,402	50,716
-	-	32,811
2,540	24,408	108,488
5,070	-	5,070
12,835	-	12,835
-	-	277
539	4,122	32,543
-	-	7,787
13,189	136	14,039
52,075	-	52,075
515	311	876
-	-	4,620
2,197	4,826	23,983
47	938	1,799
10,161	13,611	36,331
-	-	3,133
41	5	152
-	20	980
\$ 474,310	\$ 214,528	\$ 2,273,142

BLACK HILLS STATE UNIVERSITY FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Receipts from Donors	\$ 135,980	\$ 832,179
Rent Receipts	104,789	111,689
Other Operating Cash Receipts	250,000	49,986
Interest Receipts	97,817	389,510
Interest Paid	(28,877)	(32,811)
Cash Payments to Suppliers for Goods and Services	(2,091,058)	(1,637,014)
Net Cash Flows Used in Operating Activities	(1,531,349)	(286,461)
Cash Flows from Investing Activities		
Net Change in Amounts Held for Others	392,472	(190,511)
Purchase of Investments	(1,523,513)	(905,784)
Proceeds from Sale of Investments	554,558	1,455,277
Net Cash Flows Provided by (Used in) Investing Activities	(576,483)	358,982
Cash Flows from Financing Activities		
Contributions Restricted for Endowment Purposes	2,488,904	657,602
Payments on Loan Against Cash Surrender Value of Life Insurance	-	(19,512)
Principal Paid on Long-term Debt	(13,365)	(13,200)
Payments on Annuity Liability	(82,545)	(80,909)
Net Cash Flows Provided by Financing Activities	2,392,994	543,981
Net Change in Cash and Cash Equivalents	285,162	616,502
Cash and Cash Equivalents -- Beginning of Year	1,075,169	458,667
Cash and Cash Equivalents -- End of Year	\$ 1,360,331	\$ 1,075,169

The accompanying notes are an integral part of these statements.

BLACK HILLS STATE UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Change in Net Assets to Net Cash		
Flows Used in Operating Activities		
Increase in Net Assets	\$ 3,779,646	\$ 2,656,018
<i>Adjustments to Reconcile Increase in Net Assets to Net</i>		
<i>Cash Flows Provided by (Used in) Operating Activities:</i>		
Depreciation Expense	90,132	88,322
Net Realized and Unrealized Gain on Investments and Annuity Interests	(2,152,400)	(2,409,937)
Contributions Restricted for Endowment Purposes	(1,527,931)	(657,602)
Increase in Cash Surrender Value of Life Insurance Policy	(90,139)	(90,150)
Donations of Securities for Endowment Purposes	(960,973)	(39,263)
Amortization of Pledge Discount	31,383	(735)
Change in Provision for Bad Debts	6,759	(14,239)
<i>Change in Assets and Liabilities:</i>		
Other Receivables	(8,973)	(2,475)
Prepaid Expenses	1,642	(769)
Promises to Give	(500,658)	36,922
Accounts Payable	(199,837)	151,067
Unearned Rent Revenue	-	(3,620)
Net Cash Flows Used in Operating Activities	\$ (1,531,349)	\$ (286,461)

BLACK HILLS STATE UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

(1) Nature of Operations and Significant Accounting Policies

Nature of Operations

The Black Hills State University Foundation (the Foundation) is organized as a South Dakota nonprofit corporation and operates exclusively for charitable and educational purposes. Its activities are to solicit and manage gifts, money, and property exclusively for educational, scientific, and cultural purposes, and to promote and support education, management, students, alumni and special projects of Black Hills State University (BHSU). The Foundation also develops and maintains relations with the alumni of BHSU.

Significant Accounting Policies

Use of Estimates

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

Basis of Presentation

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

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

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

Investments

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

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

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(1) Summary of Significant Accounting Policies (Continued)

Investments (Continued)

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 in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

Contributions, Grants and Promises to Give

Contributions of cash and other assets are recognized as support in the period received at their values. Unconditional promises to give are recognized as revenues in the period pledged. Amounts due after more than one year are recorded at their present value using a discount rate of primarily 3.25 percent, per annum. The estimate for uncollectible promises is based on management's judgment, experience with donors, and historical losses. Conditional promises to give – that is those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

The Foundation receives reimbursable grants from various sources. Each grant is analyzed to determine whether it is deemed an exchange transaction (where both the grantee and grantor receive commensurate benefits) or a contribution. Grants received during the years ended December 31, 2020 and 2019 are considered contributions. Most grants are deemed to be conditional contributions and are recognized as revenue when allowable costs are incurred.

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

On an annual basis, the Foundation revalues the "Liability under Charitable Gift Annuities" based on actuarial assumptions and present value calculations. For charitable gift annuities, this liability consists of the present value of a stream of fixed-annuity payments. The present value of the estimated future payments is calculated using a discount rate and applicable mortality tables. Generally, the Foundation uses a discount rate of 2 percent.

In-Kind Contributions

The Foundation records various types of in-kind support, including products and services, at fair market value at the time of the gift. Professional services received are recognized as revenue if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses and total **\$356,382** and \$393,263 for the years ended December 31, 2020 and 2019, respectively. In-kind contributions include **\$287,531** and \$308,258 of employee salaries and benefits from BHSU for the years ended December 31, 2020 and 2019.

Rental Income

Rental revenue is recognized over the lease term. The Foundation leases properties under short-term and cancelable operating leases. Amounts received in advance are presented as unearned rent revenue on the accompanying statements of financial position.

Grants Made

Grants, including scholarships and awards, made to BHSU or students of BHSU, are recorded in the period they are made and reported as decreases in assets. Unconditional promises to give cash or other assets are recognized as liabilities and expenses. Conditional promises to give cash or other assets are recognized at the time when conditions on which they depend are met. All grants awarded have been paid and there were no conditional grants as of December 31, 2020 or 2019.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(1) Summary of Significant Accounting Policies (Continued)

Depreciation

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

	<u>Years</u>
Office Equipment and Furnishings	7
Buildings and Improvements	40

Federal Income Tax

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

At December 31, 2020 and 2019, the Foundation believes no significant uncertain tax positions or liabilities exist.

Assets Held for Others

The Foundation holds, invests, and manages certain assets for another nonprofit organization and student clubs associated with BHSU. These funds are reported as a liability on the accompanying statement of financial position. Increases and decreases in these funds, including appreciation (depreciation) of investments, are not included in revenue and expenses of the Foundation (Note 7).

Functional Allocation of Expenses

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

Cash and Cash Equivalents

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

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at the cash surrender value, which approximates fair value at the date of donation. Policies are only reported if the Foundation has control over the designation of the policy beneficiary. Policies are reported at the cash surrender value (cash value reduced by any policy loans or surrender charges) plus any additional amounts included in the contractual terms of the policy.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(1) Summary of Significant Accounting Policies (Concluded)

Rental Real Estate

Rental real estate investments are presented at historical cost less depreciation. Depreciation is computed using the straight-line method over useful lives of 27 years.

The Foundation evaluates its rental real estate for potential impairment losses when indicators of impairment are present and the carrying amount of long-lived assets exceeds its fair value. In addition, useful lives of long-lived assets are reviewed annually. The Foundation evaluated rental real estate at December 31, 2020, based on anticipated proceeds. Management anticipates no impairment losses.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation, with no effect on reported change in net assets for the year ended December 31, 2019.

Accounting Standard Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for years beginning after December 15, 2019. The Foundation adopted the new guidance during the year ended December 31, 2020. No material impact to the financial statements occurred as a result of adoption. No adjustment to beginning net assets was made.

Emerging Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. If the available accounting election is made, leases with a term of twelve months or less can be accounted for similar to existing guidance for operating leases. With regards to lessors, the new standard requires lessors to classify leases as sales-type, direct financing, or operating leases based on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. A lessor is precluded from recognizing income at lease commencement if control is not transferred. In addition, no differentiation exists between leases of real estate and leases of other assets. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Foundation is currently evaluating the impact this standard will have on the financial statements.

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

Subsequent Events

The Foundation has evaluated significant subsequent events through September 24, 2021, the date which the financial statements were available to be issued.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(2) Investments

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy is defined as follows:

- Level One: Observable inputs such as quoted market prices for identical assets or liabilities in active markets. The types of assets and liabilities included in Level One are highly liquid and actively traded investments with quoted market prices.
- Level Two: Inputs include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. The types of assets and liabilities included in Level Two are typically either comparable to actively traded securities or priced with models using observable inputs.
- Level Three: Inputs are based on prices or valuation techniques that are unobservable. The types of assets and liabilities included in Level Three require significant management judgment or estimation.

The following tables present the assets carried at fair value as of December 31, 2020 and 2019, on the accompanying Statements of Financial Position by fair value hierarchy, as described above. All are measured on a recurring basis. The Foundation carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

December 31, 2020	Level One	Level Two	Level Three	Total
Money Market Funds included in Cash				
Cash Equivalents	\$ 1,142,330	\$ -	\$ -	\$ 1,142,330
Certificates of Deposit	331,704	-	-	331,704
Mutual Funds	8,662,774	-	-	8,662,774
Stocks	7,146,630	998,165	-	8,144,795
Fixed Income	1,216,692	447,850	-	1,664,542
Corporate Bonds	577,983	820,494	-	1,398,477
Structured Debt	-	1,043,258	-	1,043,258
Municipal Bonds	11,505	625,578	-	637,083
Money Market Funds	551,370	-	-	551,370
Alternatives	227,522	-	-	227,522
	\$ 19,868,510	\$ 3,935,345	\$ -	\$ 23,803,855

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(2) Investments (Continued)

December 31, 2019	Level One	Level Two	Level Three	Total
Money Market Funds included in Cash Cash Equivalents	\$ 907,783	\$ -	\$ -	\$ 907,783
Certificates of Deposit	833,816	-	-	833,816
Mutual Funds	7,853,411	1,274,913	-	9,128,324
Stocks	2,852,772	-	-	2,852,772
Fixed Income	3,398,748	-	-	3,398,748
Corporate Bonds:	-	1,555,858	-	1,555,858
Structured Debt	-	199,346	-	199,346
Municipal Bonds	-	818,423	-	818,423
Money Market Funds	691,939	-	-	691,939
Alternatives	33,227	-	-	33,227
	<u>\$ 16,571,696</u>	<u>\$ 3,848,540</u>	<u>\$ -</u>	<u>\$ 20,420,236</u>

(3) Unconditional Promises to Give

The Foundation receives promises to give through their capital and annual campaigns, as well as through corporate and personal spontaneous gifts. Unconditional promises to give are as follows at December 31:

	2020	2019
Receivable in less than one year	\$ 128,958	\$ 40,457
Receivable in one to five years	452,162	42,904
Receivable in six years	4,066	1,167
	<u>585,186</u>	<u>84,528</u>
Less discounts to net present value	34,907	3,524
Less allowance for uncollectible promises	12,364	5,605
Net Promises to Give	<u>\$ 537,915</u>	<u>\$ 75,399</u>

At December 31, 2020, \$550,000 is receivable from one donor.

(4) Rental Real Estate

Rental real estate consists of the following at December 31:

	2020	2019
Land, at cost	\$ 432,561	\$ 432,561
Buildings and Improvements, at cost	1,306,261	1,306,261
	<u>1,738,822</u>	<u>1,738,822</u>
Accumulated depreciation	(177,608)	(140,374)
Net Book Value	<u>\$ 1,561,214</u>	<u>\$ 1,598,448</u>

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(5) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Land	\$ 175,685	\$ 175,685
Building and Improvements	1,627,196	1,627,195
Equipment and Furnishings	261,150	261,150
	<u>2,064,031</u>	<u>2,064,030</u>
Accumulated Depreciation	<u>(492,183)</u>	<u>(439,284)</u>
	<u>\$ 1,571,848</u>	<u>\$ 1,624,746</u>

(6) Charitable Gift Annuity Liability

During the year ended December 31, 2015, the Foundation was named beneficiary of a \$1,000,000 charitable 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 originally established based on the donor's life expectancy and the use of a 2.00 percent discount rate. The fair value of the assets is included in the Foundation's pooled investments. The remaining liability under the charitable gift annuity as of December 31, 2020 and 2019 is approximately **\$84,000** and \$138,000, respectively.

During the year ending December 31, 2017, the Foundation was named beneficiary of a \$20,000 charitable 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 originally established based on the donor's life expectancy and the use of a 2.40 percent discount rate. The fair value of the assets is included in the Foundation's pooled investments. The remaining liability under the charitable gift annuity as of December 31, 2020 and 2019 is approximately **\$12,000** and \$12,500, respectively.

(7) 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 BHSU. YJF assets have been pooled with the Foundation's assets to generate more investment income and lower fees on investment accounts. Income is allocated based on contributions and withdrawals of each respective organization. Included in assets held for others are life insurance policies in which YJF is named owner and beneficiary and amounts due to or from YJF for operating expenses.

YJF and the other clubs and student groups have the right to withdraw all or a portion of their funds held by the Foundation, 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.

(8) Long-Term Debt

Long-term debt consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Note Payable to a bank due in monthly installments of \$3,436 including 4.75 percent interest, due in 2044.		
Secured by real estate.	\$ 576,261	\$ 589,626
	<u>576,261</u>	<u>589,626</u>
Current Maturities of Note Payable	13,539	19,835
	<u>\$ 562,722</u>	<u>\$ 569,791</u>

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(8) Long-Term Debt (Continued)

Long-term debt matures as follows during the years ended December 31:

2021	\$	13,539
2022		14,826
2023		15,546
2024		16,300
2025		17,092
Thereafter		498,958
	\$	576,261

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

Net assets with purpose or time restrictions are available for the following at December 31:

	2020	2019
Scholarships	\$ 3,716,218	\$ 2,875,267
Time Restriction on Life Insurance	1,741,537	1,651,398
Fine Arts Fund	1,023,288	934,095
General Support to BHSU	626,045	502,889
Promises to Give, Net - Purpose Determined by Donor at Later Date	168,417	75,399
SD CEO	172,068	163,689
	\$ 7,447,573	\$ 6,202,737

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

During the years ended December 31, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	2020	2019
<i>Purpose of Restriction Accomplished:</i>		
Scholarships Awarded	\$ 905,111	\$ 863,657
Management Fee Charged to Endowments	484,495	543,372
SD CEO	199,131	136,854
General Support to BHSU	130,795	216,487
	\$ 1,719,532	\$ 1,760,370

(10) Net Assets With Donor Restrictions - Perpetual

Net assets with perpetual restrictions consist of the following at December 31:

	2020	2019
Scholarships	\$ 14,518,201	\$ 12,386,010
General Support to BHSU	970,304	963,645
Promises to Give, Net - Purpose Determined by Donor at Later Date	369,498	-
	\$ 15,858,003	\$ 13,349,655

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(10) Net Assets With Donor Restrictions – Perpetual (Continued)

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

(11) Endowed Net Assets

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

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

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

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

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

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

(11) Endowed Net Assets (Continued)

Changes in endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
Endowment Assets - December 31, 2018	\$ -	\$ 2,287,530	\$ 12,705,076	\$ 14,992,606
Net Investment Return	-	2,566,362	-	2,566,362
Management Fee Charged to Endowments	-	(483,586)	-	(483,586)
Contributions	-	51,015	644,579	695,594
Appropriation for Expenditure	-	(602,725)	-	(602,725)
Endowment Assets - December 31, 2019	-	3,818,596	13,349,655	17,168,251
Net Investment Return	-	2,043,430	-	2,043,430
Management Fee Charged to Endowments	-	(453,310)	-	(453,310)
Contributions	-	-	2,508,348	2,508,348
Appropriation for Expenditure	-	(605,262)	-	(605,262)
Endowment Assets - December 31, 2020	\$ -	\$ 4,803,454	\$ 15,858,003	\$ 20,661,457

The Foundation has adopted investment and spending policies for endowment assets that attempt to maximize support while growing the endowment's principal value to maintain spending value compared to appropriate inflationary indexes. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than five percent plus inflation over the long term.

Spending allocations for fiscal years 2020 and 2019 were based on a 12-quarter rolling fund average. The current spending policy is to distribute no more than 5 percent of the 12-quarter rolling average of the market value of the Pooled Long-Term Fund and the Pooled Equity Fund. The Foundation will distribute from the Pooled Fixed Income Fund net income and the contractual rate specified within annuity or charitable trust agreements. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

(12) Liquidity

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

As described in Note 11, the Foundation's endowments are subject to annual spending rates and allocations authorized by the Foundation Board. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

In the event of unanticipated liquidity needs, the Foundation has borrowing capacity and could obtain an operating line of credit for short term funding shortages, if needed. The Foundation may also solicit donors if the need arises.

BLACK HILLS STATE UNIVERSITY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020 AND 2019**

(12) Liquidity (Continued)

The table below presents financial assets available for general expenditures within one year at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<i>Financial Assets at year end:</i>		
Cash and Cash Equivalents	\$ 1,360,331	\$ 1,075,169
Other Receivables	24,415	15,442
Unconditional Promises to Give, Net	537,915	75,399
Cash Surrender Value of Life Insurance	1,741,537	1,651,398
Investments	22,661,525	19,512,453
Total Financial Assets	26,325,723	22,329,861
<i>Less amounts not available to be used within one year:</i>		
Amounts Held for Others	2,434,839	2,042,367
Liability under Charitable Gift Annuity	95,890	150,718
Net Assets with Donor Restriction	23,305,576	19,552,392
	25,836,305	21,745,477
Financial Assets Available to Meet		
General Expenditures Within One Year	\$ 489,418	\$ 584,384

(13) Leases

The Foundation, as lessor, leases property to BHSU used as a residential home for the President of BHSU. The lease requires monthly rental payments not to exceed \$3,500. The lease agreement is cancelable by either party with 30 days notice. As of December 31, 2020 and 2019, the cost of real estate included in rental real estate totaled **\$1,333,822**. Accumulated depreciation related to these assets was **\$149,953** and \$123,782 as of December 31, 2020 and 2019, respectively.

(14) Conditional Contributions

The Foundation receives reimbursable grants from various sources. Grants that are determined to be conditional are recognized as revenue when allowable costs are incurred. Conditional contributions for which barriers have not yet been met, and revenue not yet recorded total **\$432,000** and \$112,500 at December 31, 2020 and 2019, respectively.

(15) Current Economic Events

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

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