

**BLACK HILLS STATE  
UNIVERSITY FOUNDATION**

INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS, AND  
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

**CASEY  PETERSON**  
*Leading the Way.*

RAPID CITY, SOUTH DAKOTA  
GILLETTE, WYOMING



**Black Hills State University Foundation**  
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**December 31, 2017**

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## Independent Auditor's Report

Board of Trustees  
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, 2017, and the related statements of activities 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, 2017, 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.



Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 22 - 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Casey Peterson, LTD.*

Casey Peterson, Ltd.

Rapid City, South Dakota

November 27, 2018

## FINANCIAL STATEMENTS

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

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

See the accompanying notes and independent auditor's report.

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

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**UNRESTRICTED NET ASSETS**

Revenues and Other Support:

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

Total Revenues and Other Support 1,181,032

Reclassifications of Net Assets (39,763)

Net Assets Released From Restrictions 1,683,834

Total Support and Reclassifications 2,825,103

Expenses:

Program Services:

Scholarships and Awards	860,521
University Support	460,103
Alumni Association	52,921
Presidential Support	43,851

Supporting Services:

Management and General	113,525
Fundraising	<u>186,195</u>

Total Expenses 1,717,116

**CHANGE IN UNRESTRICTED NET ASSETS** 1,107,987

**TEMPORARILY RESTRICTED NET ASSETS**

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

**CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** 791,036

See the accompanying notes and independent auditor's report.

<b>PERMANENTLY RESTRICTED NET ASSETS</b>	
Contributions	1,014,615
Reclassifications of Net Assets	<u>1,500</u>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<u>1,016,115</u>
<b>CHANGE IN NET ASSETS</b>	2,915,138
<b>NET ASSETS, BEGINNING</b>	<u>18,368,037</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 21,283,175</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, 2017**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Donors	\$ 1,888,161
Rent Receipts	56,455
Other Operating Cash Receipts	39,524
Interest Receipts	347,173
Interest Paid	(35,276)
Cash Payments to Suppliers of Goods and Services	<u>(1,631,340)</u>
Net Cash Provided by Operating Activities	<u>664,697</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net Change in Amounts Held for Others	294,330
Receipts on Related-party Notes Receivable	11,427
Purchase of Property and Equipment	(9,543)
Purchases of Investments	(1,189,549)
Proceeds from Sales of Investments	<u>146,010</u>
Net Cash Used by Investing Activities	<u>(747,325)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Contributions Restricted to Permanent Endowment	982,015
Payments on Loan Against Cash Surrender Value of Life Insurance	(35,000)
Payments on Annuity Liability	(96,759)
Advances on Annuity Liability	20,000
Principal Paid on Long-term Debt	<u>(22,972)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>847,284</u>

Increase in Cash and Cash Equivalents	764,656
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<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>103,033</u>
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<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 867,689</u></u>
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See the accompanying notes and independent auditor's report.

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

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

See the accompanying notes and independent auditor's report.

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

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

Basis of Accounting

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents and Short-term Investments

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

Pledges Receivable

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

Investments

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

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Collections

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

Property and Equipment

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

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

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

Income Tax Status

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

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

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

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Estimates

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

Functional Allocation of Expenses

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

Liquidity

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

**NOTE 2 - PLEDGES RECEIVABLE**

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

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

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

**NOTE 3 - ENDOWMENT FUNDS**

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

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



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

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**NOTE 3 - ENDOWMENT FUNDS (CONTINUED)**

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

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

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

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

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

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

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**NOTE 4 - FAIR MARKET VALUE MEASUREMENTS**

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

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

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

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

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

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

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

**NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)**

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

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

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

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**NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)**

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

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

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

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

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

**NOTE 5 - RELATED-PARTY NOTE RECEIVABLE**

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

**NOTE 6 - CASH SURRENDER VALUE OF LIFE INSURANCE**

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

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

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**NOTE 7 - PROPERTY AND EQUIPMENT**

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

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

**NOTE 8 - AMOUNTS HELD FOR OTHERS**

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

**NOTE 9 - ANNUITY LIABILITY**

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

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

**NOTE 10 - LONG-TERM DEBT**

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

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

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

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**NOTE 10 - LONG-TERM DEBT (CONTINUED)**

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

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

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

**NOTE 11 - BOARD-DESIGNATED NET ASSETS**

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

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

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

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

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

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

**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS**

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

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

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

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

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

**NOTE 14 - RELATED-PARTY TRANSACTIONS**

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

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

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

**NOTE 15 - CONCENTRATIONS OF CREDIT RISK**

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

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

**NOTE 16 - SUBSEQUENT EVENTS**

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

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SUPPLEMENTARY INFORMATION

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

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

See independent auditor's report.

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

See independent auditor's report.