



**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020**

**BLACK HILLS STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020**

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**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

Reporting Entity

This discussion and analysis provides an overview of the financial position and performance of Black Hills State University (the University/BHSU) for the fiscal year ended June 30, 2020. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes. The accuracy of the financial statements, note disclosures, and discussion are the responsibility of University management.

The University is one of six public universities and two special schools under the control of the South Dakota Board of Regents. As a constitutionally established entity, the Board of Regents is responsible for the governance policy for each institution within the South Dakota Public System (the System).

Based on the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, it has been determined the Board of Regents is a component unit of the State of South Dakota (the State). The University's financial operations are audited as part of the State through the Board of Regents; therefore, an individual audit opinion is not issued but is included in the audit opinion of the State's Comprehensive Annual Financial Report (CAFR).

The University is a comprehensive, regional university located in Spearfish, SD, in the heart of the scenic northern Black Hills. The location provides the ideal environment for combining outdoor recreational and collegiate educational opportunities in a small-town setting. BHSU offers academic programs at the associate's, bachelor's and master's degree levels.

The Black Hills State University Foundation (the Foundation) is a component unit of the University. The University does not control the timing or amounts of receipts from the Foundation. However, most resources or income the Foundation holds and invests are restricted by the donors for the University's activities. Independent auditors, engaged by the Foundation's Board of Directors, audit the Foundation's financial statements and related notes, which are included in this report.

Mission Statement

BHSU is a master's level university that promotes excellence in teaching and learning; supports research, creative and scholarly activities and provides service to the state, region, nation, and global community. The University provides innovative, high quality undergraduate (associate and baccalaureate) programs in the arts, humanities, education, behavioral sciences, mathematics, social sciences, natural sciences, business and technology as well as selected disciplines of strength at the graduate level. BHSU is the only comprehensive university in western South Dakota.

The Board of Regents implemented SDCL 13-59-1 by authorizing undergraduate and graduate programs in the liberal arts and sciences and in professional education, to promote excellence in teaching and learning, to support research, scholarly and creative activities, and to provide service to the State of South Dakota and the region.

Vision Statement

BHSU will be the region's leading university in undergraduate research and sustainability whose graduates will enact global change through leadership, stewardship, and scholarship.

Values

As member of the BHSU community, we value:

- Student Success
- Academic Excellence
- Innovation
- Authenticity

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Strategic Goals

We will INSPIRE and support student success from recruitment to graduation.

BHSU awarded 560 degrees in the 2020 academic year. Fall headcount enrollment declined to 3,608 in 2020 from 3,858 in 2019. BHSU – Rapid City fall enrollment was 838 in 2020 and 971 in 2019. Dual credit students increased to 559 in 2020 from 533 in 2019.

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

Class size decreased to 16:1 for 2020 from 18:1 in 2019. The University decreased awards to Honors students to \$291,156 in 2020 from \$319,000 in 2019 and decreased awards slightly to student athletes from \$1,150,000 in 2019 to \$1,101,000 in 2020.

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

Housing occupancy decreased to 83% in 2020 from 86% in 2019. Renovations are continuing in the Yellow Jacket Apartments to modernize the residences and make them more appealing to students. In 2020, the number of student organizations and clubs increased remained constant from 2019 at 94.

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

The number of donors decreased in 2020 to 1,402 from 2,099 in 2019. However, the BHSU Foundation endowments increased to \$21.3 million in 2020 from \$18.3 million in 2019. The BHSU Foundation was also in the final stages of completing a successful \$45 million fundraising campaign that focused on student scholarships.

Using the Annual Report

The financial statements have been prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Statements required include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

The University provided analysis of major variances that occurred between fiscal years 2020 and 2019, as well as information regarding capital assets, debt administration, and an economic outlook. The management's discussion and analysis focus on the University's operations, excluding the Foundation.

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights

Statement of Net Position

The Statement of Net Position presents the University's financial position at the end of the fiscal year, including all assets and liabilities. Net position, the result of total assets minus total liabilities, is one indicator of the current financial condition of the system. Assets, deferred outflows, and liabilities are reported at cost or fair market value, less accumulated depreciation or amortization.

Condensed Statements of Net Position

| Assets | 2020 | 2019 |
|--|--------------------------|-------------------------|
| Current Assets | \$ 14,667,623.83 | \$ 14,478,363.62 |
| Non-Current Assets | 85,709,129.71 | 85,450,318.00 |
| Total Assets | \$ 100,376,753.54 | \$ 99,928,681.62 |
| | | |
| Deferred Outflows of Resources | \$ 64,515.90 | \$ 69,393.03 |
| | | |
| Total Assets and Deferred Outflows of Resources | \$ 100,441,269.44 | \$ 99,998,074.65 |
| | | |
| Liabilities | | |
| Current Liabilities | \$ 4,649,186.55 | \$ 3,494,751.39 |
| Non-Current Liabilities | 19,475,876.14 | 18,366,172.14 |
| Total Liabilities | \$ 24,125,062.69 | \$ 21,860,923.53 |
| | | |
| Net Position | | |
| Net Investment in Capital Assets | \$ 68,068,781.06 | \$ 68,927,260.52 |
| Restricted | 1,923,194.00 | 1,881,140.82 |
| Unrestricted | 6,324,231.69 | 7,328,749.78 |
| Total Net Position | \$ 76,316,206.75 | \$ 78,137,151.12 |
| | | |
| Total Liabilities and Net Position | \$ 100,441,269.44 | \$ 99,998,074.65 |

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Continued)

Statements of Net Position (Continued)

All the construction projects in 2019 were put into service in 2020. Upgrades to the apartments are in Phase IV (the final phase of the upgrade). Renovations on the EY Berry Library began at close of fiscal year 2020. The University's largest asset is its investment in Buildings & Building Improvements which represents approximately \$67 million of non-current assets.

Construction in Progress

| | 2020 | 2019 |
|---------------------------------------|------------------------|------------------------|
| Apartments Upgrade- Phase III | \$ 189,349.61 | \$ - |
| Football Turf and Fencing | - | 158,602.04 |
| Wenona Cook Walkway | - | 188,069.15 |
| Chiller Replacement | | 2,135,920.78 |
| EY Berry Renovations | 115,805.74 | |
| Campus Wide Energy Measures | 2,224,563.43 | - |
| Total Construction in Progress | \$ 2,529,718.78 | \$ 2,482,591.97 |

Capital Assets, Net Accumulated Depreciation

| | 2020 | 2019 |
|---------------------------------------|-------------------------|-------------------------|
| Land | \$ 234,350.00 | \$ 234,350.00 |
| Building & Building Improvements, Net | 67,059,329.75 | 69,810,882.79 |
| Land Improvements, Net | 3,619,296.15 | 3,484,785.14 |
| Infrastructure, Net | 8,969,028.29 | 5,355,019.40 |
| Equipment & Other Property, Net | 2,260,328.21 | 2,684,270.76 |
| Total Capital Assets, Net | \$ 82,142,332.40 | \$ 81,569,308.09 |

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Continued)

Statements of Net Position (Continued)

Non-Current Liabilities increased due to lease obligations relating to the campus-wide energy conservation measures project that began in fiscal year 2020. Bonds payable is the University's largest liability totaling \$14,049,791.84.

Non-Current Liabilities

| | 2020 | 2019 |
|---|-------------------------|-------------------------|
| 2014B Revenue Bond | \$ 1,152,205.48 | \$ 1,317,387.48 |
| 2014A Revenue Bond | 7,947,586.36 | 8,446,645.09 |
| 2007 Revenue Bond | 4,450,000.00 | 4,855,000.00 |
| 2006 Revenue Bond | 500,000.00 | 575,000.00 |
| Total Bonds Payable | 14,049,791.84 | 15,194,032.57 |
| Lease Obligations | 2,617,994.18 | - |
| Total Long-Term Debt | 16,667,786.02 | 15,194,032.57 |
| Compensated Absences Payable | 2,671,295.37 | 2,743,259.30 |
| Federal Capital Contribution Refundable Advance | 2,338,358.00 | 2,508,921.00 |
| Total Non-Current Liabilities | \$ 21,677,439.39 | \$ 20,446,212.87 |
| Due Within One Year | \$ 2,201,563.25 | \$ 2,080,040.73 |

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the University's operations. Revenues and expenses are classified as either operating or non-operating, with State Appropriations classified as non-operating revenues. Operating expenses decreased in 2020. The financial statements for 2019 and 2020 also include over \$4.5 million in depreciation expense, which is the amortization of the cost of capital assets over their estimated useful life.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

| | 2020 | 2019 |
|---------------------------------------|---------------------------|---------------------------|
| Total Operating Revenues | \$ 30,564,944.52 | \$ 32,475,560.41 |
| Total Operating Expenses | (50,276,788.05) | (50,920,213.13) |
| Operating Loss | \$ (19,711,843.53) | \$ (18,444,652.72) |
| Non-Operating Revenues and Expenses | \$ 16,510,049.48 | \$ 14,287,763.76 |
| Other Revenues | 1,111,752.91 | 2,432,066.33 |
| Total Increase in Net Position | \$ (2,090,041.14) | \$ (1,724,822.63) |
| Net Position - Beginning of the year | \$ 78,137,151.12 | \$ 79,312,593.12 |
| Prior Period Adjustments | 269,096.77 | 549,380.63 |
| Net Position - End of the year | \$ 76,316,206.75 | \$ 78,137,151.12 |

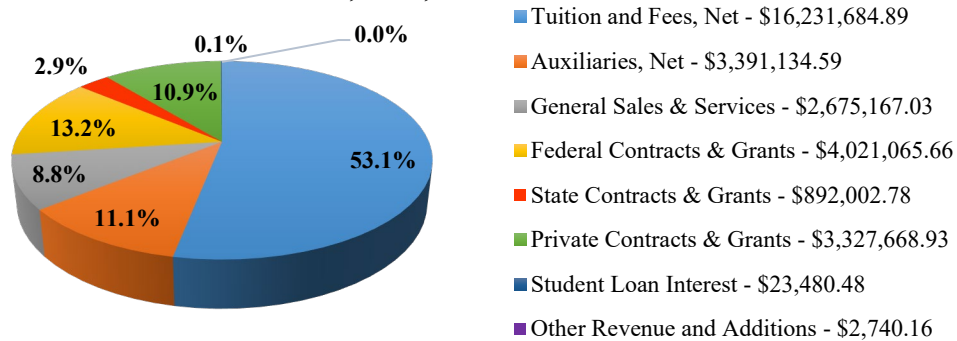
**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Continued)

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

Total Operating Revenues were down approximately \$1.9 million, due to decreases in Net Tuition and Fees, Net Auxiliaries revenues and General Sales & Service as enrollment declined and the Covid19 pandemic began at the beginning of 2020. An increase in Federal Contracts & Grants partially offset the decreases in Net Tuition and Fees, Net Auxiliaries revenues and General Sales & Service.

**FY20 Operating Revenues
\$30,564,944.52**



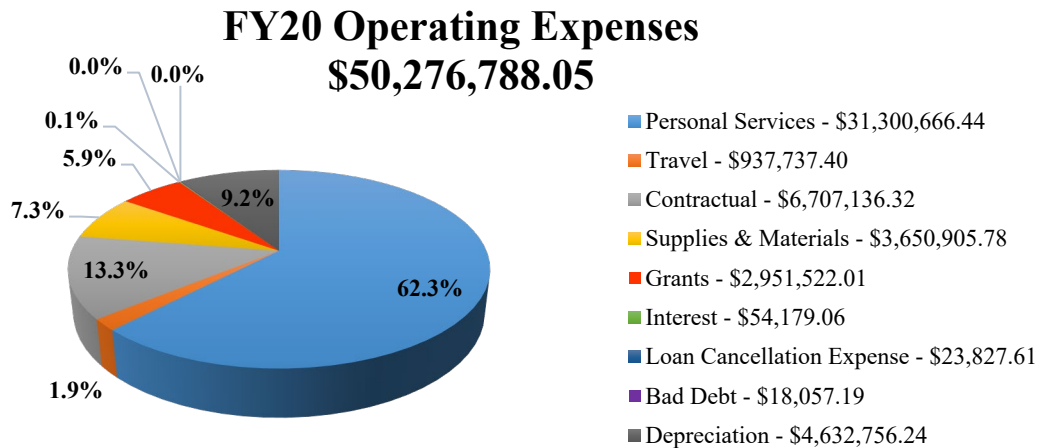
| Operating Revenues | 2020 | 2019 | Increase (Decrease) |
|---------------------------------|-------------------------|-------------------------|--------------------------------|
| Tuition and Fees, Net | \$ 16,231,684.89 | \$ 16,618,139.63 | \$ (386,454.74) |
| Auxiliaries, Net | 3,391,134.59 | 4,312,583.85 | (921,449.26) |
| General Sales & Services | 2,675,167.03 | 3,434,096.50 | (758,929.47) |
| Federal Contracts & Grants | 4,021,065.66 | 3,753,141.60 | 267,924.06 |
| State Contracts & Grants | 892,002.78 | 934,686.90 | (42,684.12) |
| Private Contracts & Grants | 3,327,668.93 | 3,397,153.80 | (69,484.87) |
| Student Loan Interest | 23,480.48 | 22,416.20 | 1,064.28 |
| Other Revenue and Additions | 2,740.16 | 3,341.93 | (601.77) |
| Total Operating Revenues | \$ 30,564,944.52 | \$ 32,475,560.41 | \$ (1,910,615.89) |

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Continued)

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

Total Operating Expenses decreased approximately \$650,000. BHSU implemented budget cuts in FY20 to align expenses to revenue for the fiscal year.



| Operating Expenses | 2020 | 2019 | Increase (Decrease) |
|---------------------------------|-------------------------|-------------------------|--------------------------------|
| Personal Services | \$ 31,300,666.44 | \$ 30,605,213.24 | \$ 695,453.20 |
| Travel | 937,737.40 | 1,630,036.73 | (692,299.33) |
| Contractual | 6,707,136.32 | 7,335,095.90 | (627,959.58) |
| Supplies & Materials | 3,650,905.78 | 4,072,290.73 | (421,384.95) |
| Grants | 2,951,522.01 | 2,582,148.87 | 369,373.14 |
| Interest | 54,179.06 | 6,840.67 | 47,338.39 |
| Loan Cancellation Expense | 23,827.61 | 31,588.52 | (7,760.91) |
| Bad Debt | 18,057.19 | 151,423.58 | (133,366.39) |
| Depreciation | 4,632,756.24 | 4,505,574.89 | 127,181.35 |
| Total Operating Expenses | \$ 50,276,788.05 | \$ 50,920,213.13 | \$ (643,425.08) |

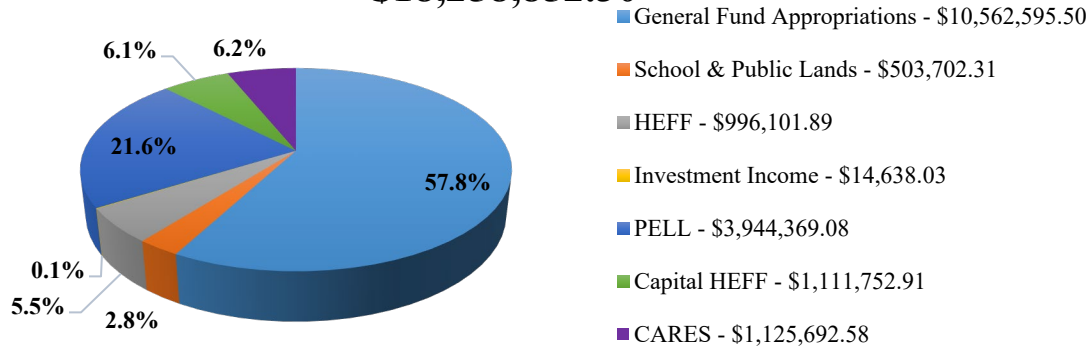
**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Continued)

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

Other Revenues increased approximately \$900,000.

**FY20 Non - Operating & Other Revenues
\$18,258,852.30**



| Non-Operating & Other Revenues | 2020 | 2019 | Increase (Decrease) |
|---|-------------------------|-------------------------|--------------------------------|
| General Fund Appropriations | \$ 10,562,595.50 | \$ 9,655,537.42 | \$ 907,058.08 |
| School & Public Lands | 503,702.31 | 173,360.00 | 330,342.31 |
| HEFF | 996,101.89 | 1,026,606.42 | (30,504.53) |
| Investment Income | 14,638.03 | (4,187.31) | 18,825.34 |
| PELL | 3,944,369.08 | 4,069,713.63 | (125,344.55) |
| Capital HEFF | 1,111,752.91 | 2,432,066.33 | (1,320,313.42) |
| CARES | 1,125,692.58 | - | 1,125,692.58 |
| Capital Contracts & Grants | - | - | - |
| Total Non-Operating & Other Revenues | \$ 18,258,852.30 | \$ 17,353,096.49 | \$ 905,755.81 |

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2020**

Financial Highlights (Concluded)

Statements of Cash Flows

The Statements of Cash Flows presents information related to cash inflows and outflows. These transactions are classified as operating, non-operating, capital, and investing activities. These statements help measure the ability of the University to meet financial obligations as they mature.

Condensed Statements of Cash Flows

| Net Cash Provided/(Used) by | 2020 | 2019 |
|------------------------------------|------------------------|------------------------|
| Operating Activities | \$ (13,391,841.73) | \$ (14,243,870.43) |
| Non-Operating Activities | 16,641,301.19 | 14,184,771.23 |
| Capital Related Activities | (3,042,890.51) | (2,216,666.57) |
| Investing Activities | 56,539.37 | 39,585.98 |
| Net Decrease in Cash | 263,108.32 | (2,236,179.79) |
| Cash - Beginning of the year | 9,552,118.92 | 11,788,298.71 |
| Cash - End of the year | \$ 9,815,227.24 | \$ 9,552,118.92 |

The University's cash increased approximately \$263,000 from 2019.

Outlook for FY21 and Beyond

Overall, the University budgets available resources according to the strategic plan in a manner that keeps the priority on the instructional programs to maintain and improve the high quality degrees offered. With the decline in enrollment, the university made some strategic budget cuts in FY20 to help position the University for FY21 and beyond. Budgets are adjusted each year to reflect the projected revenues.

Black Hills State University
Statements of Net Position
June 30, 2020 and 2019

| | 2020 | 2019 |
|--|--------------------------|-------------------------|
| <u>Assets:</u> | | |
| <u>Current Assets:</u> | | |
| Cash & Cash Equivalents on Deposit - State Treasurer | \$ 9,783,213.80 | \$ 9,381,639.77 |
| Cash | 32,013.44 | 170,479.15 |
| Accounts Receivable - Students | 2,099,849.93 | 2,002,294.29 |
| Allowance for Doubtful Accounts - Students | (388,750.40) | (376,917.15) |
| Accounts Receivable - Department Sales | 48,056.71 | 308,258.88 |
| Notes Receivable | 269,980.69 | 204,101.34 |
| Interest Receivable | (38,611.92) | 3,289.42 |
| Inventory | 700,140.50 | 843,649.49 |
| Due from Federal Sources | 1,949,592.21 | 1,703,203.11 |
| Due from Primary Government | 9,467.14 | 95,320.56 |
| Due from Other Component Units | 202,671.73 | 143,044.76 |
| Total Current Assets | \$ 14,667,623.83 | \$ 14,478,363.62 |
| <u>Non-Current Assets:</u> | | |
| Restricted Cash&Cash Equivalents on Deposit- State Treasurer | \$ - | \$ - |
| Notes Receivable | 1,037,078.53 | 1,398,417.94 |
| <u>Capital Assets:</u> | | |
| Land | 234,350.00 | 234,350.00 |
| Construction in Progress | 2,529,718.78 | 2,482,591.97 |
| Building & Building Improvements | 108,357,102.86 | 108,172,874.79 |
| Accumulated Depreciation-Building & Building Improvements | (41,297,773.11) | (38,361,992.00) |
| Land Improvements | 7,779,276.08 | 7,104,706.95 |
| Accumulated Depreciation-Land Improvements | (4,159,979.93) | (3,619,921.81) |
| Infrastructure | 15,093,272.42 | 10,951,334.84 |
| Accumulated Depreciation Infrastructure | (6,124,244.13) | (5,596,315.44) |
| Equipment & Other Property | 14,936,914.05 | 14,728,077.56 |
| Accumulated Depreciation-Equipment & Other Property | (12,676,585.84) | (12,043,806.80) |
| Total Non-Current Assets | \$ 85,709,129.71 | \$ 85,450,318.00 |
| <u>Deferred Outflows:</u> | | |
| Loss on Debt Refinancing | \$64,515.90 | \$69,393.03 |
| Total Assets and Deferred Outflows | \$ 100,441,269.44 | \$ 99,998,074.65 |

Black Hills State University
Statements of Net Position
June 30, 2020 and 2019

| | 2020 | 2019 |
|--|--------------------------|-------------------------|
| <u>Liabilities:</u> | | |
| <u>Current Liabilities:</u> | | |
| Accounts Payable | \$ 547,251.57 | \$ 357,087.63 |
| Accrued Wages & Benefits | 614,376.93 | 590,011.63 |
| Accrued Interest Payable | 149,821.25 | 162,234.75 |
| Student Deposits | 127,990.00 | 157,214.00 |
| Agency Funds - Funds Held For Others | 25,976.17 | 25,280.62 |
| Unearned Revenue | 963,238.75 | 84,753.52 |
| Due to Primary Government | 18,968.63 | 27,950.79 |
| Due to Other Component Units | - | 13,034.72 |
| Other Accrued Liabilities | - | (2,857.00) |
| Compensated Absences Payable-Current Portion | 833,894.26 | 935,800.00 |
| Bonds Payable, Net Premium-Current Portion | 1,189,240.73 | 1,144,240.73 |
| Obligations Under Capital Leases-Current Portion | 178,428.26 | - |
| Total Current Liabilities | \$ 4,649,186.55 | \$ 3,494,751.39 |
| <u>Non-Current Liabilities:</u> | | |
| Compensated Absences Payable-Non-Current | \$ 1,837,401.11 | \$ 1,807,459.30 |
| Bonds Payable, Net Premium-Non-Current | 12,860,551.11 | 14,049,791.84 |
| Obligations Under Capital Leases-Non-Current | 2,439,565.92 | - |
| Federal Capital Contribution Refundable Advance | 2,338,358.00 | 2,508,921.00 |
| Total Non-Current Liabilities | \$ 19,475,876.14 | \$ 18,366,172.14 |
| Total Liabilities | \$ 24,125,062.69 | \$ 21,860,923.53 |
| <u>Net Position:</u> | | |
| Net Investment in Capital Assets | \$ 68,068,781.06 | \$ 68,927,260.52 |
| Restricted | | |
| Expendable | | |
| Debt Service | - | - |
| Other | 1,923,194.00 | 1,881,140.82 |
| Unrestricted | 6,324,231.69 | 7,328,749.78 |
| Total Net Position | \$ 76,316,206.75 | \$ 78,137,151.12 |
| Total Liabilities and Net Position | \$ 100,441,269.44 | \$ 99,998,074.65 |

The accompanying notes to the University financial statements are an integral part to these statements.

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

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

See the accompanying notes and independent auditor's report.

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------------|---------------------------|
| <u>Operating Revenues:</u> | | |
| <u>Tuition:</u> | | |
| State support | \$ 8,038,207.78 | \$ 8,041,027.00 |
| Self support | 10,812,801.66 | 10,832,489.08 |
| Total Tuition | \$ 18,851,009.44 | \$ 18,873,516.08 |
| <u>Fees:</u> | | |
| General Activity Fee | \$ 1,423,650.47 | \$ 1,512,212.79 |
| Special Discipline Fees | 87,005.00 | 104,921.75 |
| Vehicle Registration | 111,258.50 | 138,177.10 |
| Other Fees | 263,921.68 | 275,494.99 |
| Charges | 111,884.84 | 354,258.76 |
| Total Fees | \$ 1,997,720.49 | \$ 2,385,065.39 |
| Total Tuition and Fees | \$ 20,848,729.93 | \$ 21,258,581.47 |
| Student Financial Assistance | (4,617,045.04) | (4,640,441.84) |
| Total Tuition and Fees, Net of Student Financial Assistance | \$ 16,231,684.89 | \$ 16,618,139.63 |
| Auxiliaries | \$ 4,567,642.18 | \$ 5,974,870.77 |
| Scholarship Allowance | (1,176,507.59) | (1,662,286.92) |
| Auxiliaries, Net Scholarship Allowance | 3,391,134.59 | 4,312,583.85 |
| General Sales & Services | 2,675,167.03 | 3,434,096.50 |
| <u>Contracts & Grants:</u> | | |
| Federal | 4,021,065.66 | 3,753,141.60 |
| State | 892,002.78 | 934,686.90 |
| Private | 3,327,668.93 | 3,397,153.80 |
| Student Loan Interest | 23,480.48 | 22,416.20 |
| Other Revenue & Additions | 2,740.16 | 3,341.93 |
| Total Operating Revenues | \$ 30,564,944.52 | \$ 32,475,560.41 |
| <u>Operating Expenses:</u> | | |
| Personal Services | \$ (31,300,666.44) | \$ (30,605,213.24) |
| Travel | (937,737.40) | (1,630,036.73) |
| Contractual | (6,707,136.32) | (7,335,095.90) |
| Supplies & Materials | (3,650,905.78) | (4,072,290.73) |
| Grants | (2,951,522.01) | (2,582,148.87) |
| Interest | (54,179.06) | (6,840.67) |
| Loan Cancellation Expense | (23,827.61) | (31,588.52) |
| Bad Debt | (18,057.19) | (151,423.58) |
| Depreciation | (4,632,756.24) | (4,505,574.89) |
| Total Operating Expenses | \$ (50,276,788.05) | \$ (50,920,213.13) |

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------------|---------------------------|
| Operating Loss | \$ (19,711,843.53) | \$ (18,444,652.72) |
| <u>Non-Operating Revenues (Expenses):</u> | | |
| General Fund Appropriations | \$ 10,562,595.50 | \$ 9,655,537.42 |
| CARES | 1,125,692.58 | - |
| School & Public Lands | 503,702.31 | 173,360.00 |
| HEFF | 996,101.89 | 1,026,606.42 |
| Investment Income | 14,638.03 | (4,187.31) |
| Interest on Capital Assets | (637,049.91) | (633,266.40) |
| Loss on Disposal of Asset | | - |
| PELL | 3,944,369.08 | 4,069,713.63 |
| Total Non-Operating Revenues (Expenses) | \$ 16,510,049.48 | \$ 14,287,763.76 |
| Loss Before Capital Contributions | \$ (3,201,794.05) | \$ (4,156,888.96) |
| <u>Capital Contributions:</u> | | |
| Capital Contracts & Grants | \$ - | \$ - |
| HEFF | 1,111,752.91 | 2,432,066.33 |
| South Dakota Building Authority Capital Financing | - | - |
| Total Capital Contributions | \$ 1,111,752.91 | \$ 2,432,066.33 |
| Increase in Net Position | \$ (2,090,041.14) | \$ (1,724,822.63) |
| Net Position, Beginning of Year | \$ 78,137,151.12 | \$ 79,312,593.12 |
| Prior Period Adjustments | \$ 269,096.77 | 549,380.63 |
| Net Position, End of Year | \$ 76,316,206.75 | \$ 78,137,151.12 |

The accompanying notes to the University financial statements are an integral part to these statements.

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

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

See the accompanying notes and independent auditor's report.

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

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

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

See the accompanying notes and independent auditor's report.

**Black Hills State University Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2019**

| <u>Supporting Services</u> | | |
|-----------------------------------|--------------------|---------------------|
| <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
| \$ - | \$ - | \$ 988,652 |
| - | - | 229,502 |
| 33,535 | 24,666 | 144,753 |
| 2,540 | 24,408 | 108,488 |
| 8,215 | 87,844 | 96,059 |
| 37,389 | - | 88,322 |
| 27,583 | 7,543 | 60,732 |
| 52,075 | - | 52,075 |
| 10,161 | 13,611 | 36,331 |
| - | - | 31,983 |
| 14,970 | - | 27,963 |
| - | - | 24,727 |
| 2,197 | 4,826 | 23,983 |
| 12,835 | - | 12,835 |
| - | - | 10,094 |
| 3,367 | - | 7,625 |
| 562 | 5,391 | 7,388 |
| 6,862 | - | 13,372 |
| <u>\$ 212,291</u> | <u>\$ 168,289</u> | <u>\$ 1,964,884</u> |

See the accompanying notes and independent auditor's report.

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

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

See the accompanying notes and independent auditor's report.

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

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

See the accompanying notes and independent auditor's report.

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

| <u>Cash Flows from Operating Activities:</u> | 2020 | 2019 |
|---|---------------------------|---------------------------|
| Tuition and Fees, Net of Student Financial Assistance | \$ 16,127,905.31 | \$ 16,112,994.47 |
| Auxiliaries, Net Scholarship Allowance | 3,622,112.76 | 4,138,156.72 |
| General Sales & Services | 2,675,167.03 | 3,434,096.50 |
| Federal Contracts & Grants | 4,607,343.56 | 3,151,080.87 |
| State Contracts & Grants | 918,229.23 | 1,182,837.19 |
| Private Contracts & Grants | 2,293,003.38 | 2,447,383.63 |
| Other Revenue and Additions | 2,740.16 | 3,341.93 |
| Loans Issued to Students | - | - |
| Loans Collected from Students | 271,632.45 | 201,742.00 |
| Student Loan Interest | 23,480.48 | 22,416.20 |
| Payments for Personal Services | (31,040,007.07) | (30,313,905.84) |
| Payments for Travel | (937,737.40) | (1,672,036.73) |
| Payments for Contractual | (6,716,118.48) | (7,291,268.38) |
| Payments for Supplies & Materials | (3,317,232.85) | (4,068,911.45) |
| Payments for Grants | (1,871,038.23) | (1,582,099.87) |
| Payments for Other Expenditures | (51,322.06) | (9,697.67) |
| Net Cash Flows from Operating Activities | \$ (13,391,841.73) | \$ (14,243,870.43) |
| <u>Cash Flows from Non-Operating Activities:</u> | | |
| General Fund Appropriations | \$ 10,562,595.50 | \$ 9,655,537.42 |
| School & Public Lands | 503,702.31 | 173,360.00 |
| HEFF | 996,101.89 | 1,026,606.42 |
| Federal Loan Disbursements | (11,364,242.00) | (12,865,051.00) |
| Federal Loan Receipts | 11,364,242.00 | 12,865,051.00 |
| Federal Capital Contribution - Student Loan | (170,563.00) | - |
| Net Change in Funds Held for Others | (12,339.17) | (440,620.24) |
| PELL | 3,944,369.08 | 4,069,713.63 |
| CARES | 1,125,692.58 | - |
| Payments for Other Expenditures | (308,258.00) | (299,826.00) |
| Net Cash Flows from Non-Operating Activities | \$ 16,641,301.19 | \$ 14,184,771.23 |
| <u>Cash Flows from Capital Related Activities:</u> | | |
| HEFF | \$ 1,111,752.91 | \$ 2,432,066.33 |
| Revenue Bond Discounts and Related Costs | 4,877.13 | 4,877.13 |
| Principal Paid on Capital Debt | (1,100,000.00) | (1,055,000.00) |
| Interest Paid on Capital Debt | (693,704.14) | (687,926.13) |
| Proceeds from Capital Debt (Leases) | 2,617,994.18 | - |
| Purchase of Capital Assets | (4,983,810.59) | (2,910,683.90) |
| Net Cash Flows from Capital Related Activities | \$ (3,042,890.51) | \$ (2,216,666.57) |
| <u>Cash Flows from Investing Activities:</u> | | |
| Investment Income | \$ 56,539.37 | \$ 39,585.98 |
| Net Decrease in Cash | \$ 263,108.32 | \$ (2,236,179.79) |
| Cash - Beginning of the year | 9,552,118.92 | 11,788,298.71 |
| Cash - End of the year | \$ 9,815,227.24 | \$ 9,552,118.92 |

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Reconciliation of Net Operating Revenues (Expenses) to Net Cash from Operating Activities | | |
| Operating Loss | \$ (19,711,843.53) | \$ (18,444,652.72) |
| Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities: | | |
| Depreciation Expense | 4,632,756.24 | 4,505,574.89 |
| Bad Debt Expense | 18,057.19 | 151,423.58 |
| Loan Cancellation Expense | 23,827.61 | 31,588.52 |
| <u>Changes in Assets and Liabilities</u> | | |
| Accounts Receivable - Students | (103,779.58) | (505,145.16) |
| Accounts Receivable - Department Sales | 260,202.17 | (197,691.13) |
| Notes Receivables | 271,632.45 | 201,742.00 |
| Due From Federal Sources | (246,389.10) | (602,060.73) |
| Due From Primary Government | 85,853.42 | 254,606.95 |
| Due From Other Component Units | (59,626.97) | (6,456.66) |
| Inventory | 143,508.99 | 717.43 |
| Accounts Payable | 190,163.94 | 2,661.85 |
| Accrued Wages & Benefits | 332,623.30 | 291,937.95 |
| Due to Primary Government | (8,982.16) | 1,827.52 |
| Student Deposits | (29,224.00) | 23,264.00 |
| Compensated Absences Payable | (71,963.93) | (630.55) |
| Other Accrued Liabilities | 2,857.00 | (2,857.00) |
| Unearned Revenue | 878,485.23 | 50,278.83 |
| Net Cash Used by Operating Activities | \$ (13,391,841.73) | \$ (14,243,870.43) |
| Noncash Activities | | |
| Loss on Accounts Written Off | \$ - | \$ - |
| Loss on Disposal of Asset | \$ - | \$ - |

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

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

See the accompanying notes and independent auditor's report.

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

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

See the accompanying notes and independent auditor's report.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

(1) Summary of Significant Accounting Policies

Reporting Entity

Black Hills State University (the University/BHSU) is a public institution of higher education under the governance of South Dakota Board of Regents. The Board of Regents combines the financial statements of six public universities and two special schools to be presented as a component unit (Higher Education) in the State of South Dakota Comprehensive Annual Financial Report (CAFR).

The Black Hills State University Foundation (the Foundation) is a legally separate, tax exempt component unit of the University. The Foundation acts primarily as a fundraising organization to supplement resources for University programs. Although the University does not control the timing or amount of receipts from the Foundation, most resources or income the Foundation holds and invests are restricted for activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the year ended June 30, 2019, the University received \$1,000,049.00 from the Foundation for both restricted and unrestricted purposes.

Basis of Presentation

The University's financial statements include the following: Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These statements have been prepared in accordance with the generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities* issued in June and November of 1999, respectively. In accordance with Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation's financial statements are discretely presented in their original format following the University's financial statements. The Foundation is reported under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. The Foundation early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* on January 1, 2019. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Basis of Accounting

The University is considered a special purpose government entity engaged in business type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Interdepartmental charges are treated as a transfer of expense.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash in local banks, and cash on hand. Cash and Cash Equivalents on Deposit – State Treasurer include cash and investments with original maturities of three months or less which are reported at fair market value.

Restricted Cash

Restricted Cash on Deposit - State Treasurer is a bond sinking fund for the 2014B, 2014A, 2007, and 2006 revenue bonds. As no bond requirement exists, management did not maintain the sinking fund in 2020.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts Receivable includes funds owed from students for outstanding tuition and fee charges as well as funds owed to University departments from external sources for various sales and services. The University uses the allowance method for calculating uncollectible accounts receivable. Under this method, a reserve is established for the projected amount that will become uncollectible and has been computed based on the following aging schedule:

| <u>Age</u> | <u>Allowance Percentage</u> |
|--------------|---------------------------------|
| 1 year | 5 |
| 2 years | 20 |
| 3 years | 25 |
| 4 years | 30 |
| 5 years | 40 |
| Over 5 years | 100 |

Notes Receivable

Notes Receivable consists of receivables associated with the Perkins Loan Program. When Perkins loans are deemed uncollectible, they are assigned to the Department of Education. The University uses the direct write-off method for any uncollectible accounts.

Interest Receivable

Interest Receivable consists of interest earned through the State Investment Council through June 30, 2020.

Inventory

Inventory consists of supplies and materials purchased for resale and are priced at cost using the first-in-first-out method.

Due from Federal Sources

Due from Federal Sources represents expenditures made on federal grants for which reimbursement has not been received.

Due from/to Primary Government

Due from/to Primary Government represents receivables or payables to various South Dakota state agencies not governed by the Board of Regents.

Due from/to Other Component Units

Due from/to Other Component Units represents receivables or payables to other South Dakota public universities or the Board of Regents.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at cost, or for donated assets, at fair value at the date of acquisition. Capital assets are depreciated on a straight-line basis over the useful life of the asset based on tables established by the State of South Dakota Bureau of Finance and Management. Capitalization thresholds and useful lives are as follows:

| <u>Asset Type</u> | <u>Capitalization Threshold</u> | <u>Useful Life</u> |
|----------------------------|-------------------------------------|--------------------|
| Building | 100,000 | 40 years |
| Building Improvements | 100,000 | 20 years |
| Land Improvements | 50,000 | 10 years |
| Infrastructure | 50,000 | 20-50 years |
| Equipment & Other Property | 5,000 | 5-15 years |

Major additions to capital assets, which are not substantially complete at year-end, are included in the financial statements as Construction in Progress. Major additions placed into service are transferred to Buildings & Building Improvements, Land Improvements, or Infrastructure at the earliest occurrence of occupancy or substantial completion of the project.

Deferred Outflows of Resources

Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Agency Funds – Funds Held for Others

Current balances in Agency Funds – Funds Held for Others result from the University acting as an agent, or fiduciary, for student organizations.

Compensated Absences

All full-time and permanent part-time employees earn annual leave and sick leave. Employees earn fifteen days annual leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days annual leave per year that can be accumulated to forty days. Upon termination, employees receive payment for their accumulated annual leave. Employees earn fourteen days sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed 480 hours.

Bonds Payable

Bonds Payable consists of revenue bonds financing buildings, building improvements, and land improvements. Bonds Payable is reported net of the applicable premiums, and the premiums are deferred and amortized over the life of the bonds.

Federal Capital Contribution Refundable Advance

The Federal Capital Contribution Refundable Advance are funds owed to the federal government if federal loan programs were eliminated.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

Net Position

The University's net position is classified as follows:

Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, and reduced by outstanding balances for payables and bonds that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Expendable: Assets that are legally obligated to spend in accordance with externally imposed restrictions.

Unrestricted Net Position: Assets that do not meet the definition of the two preceding categories.

Revenue Recognition and Unearned Revenue

Revenue is recognized when earned. Restricted grant revenue is recognized only to the extent expended. Unearned revenue is recorded for amounts received from contract and grant sponsors that have not yet been earned and performance by the University has not been completed.

Scholarship Allowance and Student Financial Assistance

Tuition and fee revenue and auxiliary revenue have been reported net of student financial assistance and scholarship allowance in accordance with the alternative method prescribed by the National Association of College and University Business Officers (NACUBO). Under the alternative method, tuition and fee revenue and auxiliary revenue are reduced by the amount paid for by certain types of financial assistance such as PELL grants, other governmental and private grants, and scholarships. The alternative method eliminates the double reporting of revenue, first as financial aid and grant revenue and then as tuition and fee revenue or auxiliary revenue. Using the alternative method, the revenue is recognized for financial aid and grants while the financial assistance expense and tuition and fee revenue or auxiliary revenue is eliminated for the amount of financial assistance applied to students' accounts.

Operating and Non-Operating Revenues

Operating revenues consist of tuition and fees, auxiliary enterprises, general sales and services, contracts and grants, and loan funds. Non-operating revenues include state appropriations, capital and non-capital financing activities, capital grants, and investment income.

Endowment and Similar Funds

The asset of the endowment and similar funds administered by the Department of School and Public Lands have not been included in the financial statements as the University does not actively participate in the administration of these funds. Information may be found on the Department of School and Public Lands website at www.sdpubliclands.com.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on net position.

Emerging Accounting Standards

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported in the financial statements. In response to the COVID-19 pandemic, GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which extended the effective date of GASB Statement No. 84 by one year to fiscal years beginning after December 15, 2019. For the University, GASB Statement No. 84 will be implemented in FY21. It is not clear how the implementation of GASB Statement No. 84 will impact the financial statements and related reporting requirements for BHSU.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(1) Summary of Significant Accounting Policies (Continued)

Emerging Accounting Standards (continued)

In June 2017, GASB issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases previously classified as operating leases to be recognized as inflows or outflows of resources (on the Statement of Net Position) based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Although expected to be significant, University management has not yet determined the impact on the financial statements and related reporting requirements. GASB Statement No. 95 extended the effective date of GASB Statement No. 87 by 18 months to reporting periods beginning after June 15, 2021. GASB Statement No. 87 will be effective for FY22, which is the University's year ending June 30, 2022. Currently, the impact of implementing GASB Statement No. 87 is uncertain.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(2) Capital Assets

A summary of changes in Capital Assets follows:

| | 2019 | Prior Period Adjustments | 2019 Restated | Additions | Disposals | 2020 |
|----------------------------------|--------------------------|-----------------------------|--------------------------|------------------------|----------------------|--------------------------|
| Land | \$ 234,350.00 | \$ - | \$ 234,350.00 | \$ - | \$ - | \$ 234,350.00 |
| Building & Building Improvements | 108,172,874.79 | - | 108,172,874.79 | 184,228.07 | - | 108,357,102.86 |
| Land Improvements | 7,104,706.95 | - | 7,104,706.95 | 674,569.13 | - | 7,779,276.08 |
| Infrastructure | 10,951,334.83 | 277,897.50 | 11,229,232.33 | 3,864,040.09 | - | 15,093,272.42 |
| Equipment & Other Property | | | | - | | |
| Equipment | 10,551,561.00 | - | 10,551,561.00 | 200,566.49 | - | 10,752,127.49 |
| Library Books** | 4,176,516.56 | - | 4,176,516.56 | 13,280.00 | (5,010.00) | 4,184,786.56 |
| Total Assets | \$ 141,191,344.13 | \$ 277,897.50 | \$ 141,469,241.63 | \$ 4,936,683.78 | \$ (5,010.00) | \$ 146,400,915.41 |
| Less Accumulated Depreciation: | | | | | | |
| Building & Building Improvements | \$ 38,361,992.00 | \$ - | \$ 38,361,992.00 | \$ 2,935,781.11 | \$ - | \$ 41,297,773.11 |
| Land Improvements | 3,619,921.81 | - | 3,619,921.81 | 540,058.12 | - | 4,159,979.93 |
| Infrastructure | 5,596,315.43 | 7,855.74 | 5,604,171.17 | 520,072.96 | - | 6,124,244.13 |
| Equipment & Other Property | | | | | | |
| Equipment | 8,006,114.89 | 944.99 | 8,007,059.88 | 603,432.40 | - | 8,610,492.28 |
| Library Books** | 4,037,691.91 | - | 4,037,691.91 | 33,411.65 | (5,010.00) | 4,066,093.56 |
| Total Depreciation | \$ 59,622,036.04 | \$ 8,800.73 | \$ 59,630,836.77 | \$ 4,632,756.24 | \$ (5,010.00) | \$ 64,258,583.01 |
| Net Capital Assets | \$ 81,569,308.09 | \$ 269,096.77 | \$ 81,838,404.86 | \$ 303,927.54 | \$ - | \$ 82,142,332.40 |

**Library books and films are added at cost the year of their purchase. As books and films are disposed, they are removed at an average cost per book or film.

The State of South Dakota Bureau of Finance and Management’s policy concerning Special Collections and Historical Treasures states, “Works of art, historical treasures, and similar assets must be capitalized and reported at their historical cost or fair value at date of donation if they are held as individual items, but not if they are in a collection. Collections (and all additions to that collection) are not to be capitalized and reported, whether donated or purchased, that meets all of the following conditions. The collection is:

Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

Protected, kept unencumbered, cared for, and preserved.

Subject to an organizational policy that requires the proceeds from sale of collection items to be used to acquire other items for collections. This does not have to be a formal policy; however, there should be some evidence to support the existence of the policy.

For non-capitalized collections, a disclosure in the notes to the financial statements must be made for the description of the collection and the reasons these assets are not capitalized.”

The followings collections qualify under the State of South Dakota Bureau of Finance and Management’s policy as non-capitalized collections and are not included in our capital assets above. They are held for public exhibition and education and any proceeds from the sale of the items within these collections are to be returned to the collection. A Collection of Historical Treasures and Works of Art located in the E.Y. Berry Library Learning Center includes the Termisphere “Portrait of a College” by Dick Termes, the Collection of Lyndle Dunn Paintings, the A.D. Humbert Collection of Clay Tablets and the Rachetts Doll Collection.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(3) Construction in Progress & Commitments

A summary of changes in Construction in Progress follows:

| | 2019 | Prior Period Adjustment | 2019 Restated | Additions | Disposals | 2020 |
|---------------------------------------|------------------------|----------------------------|------------------------|------------------------|-------------------------|------------------------|
| Apartments Upgrade | \$ - | \$ - | \$ - | \$ 189,349.61 | \$ - | \$ 189,349.61 |
| Football Turf and Fencing | 158,602.04 | - | 158,602.04 | 489.55 | (159,091.59) | - |
| Wenona Cook Walkway | 188,069.15 | - | 188,069.15 | 39,415.80 | (227,484.95) | - |
| Chiller Upgrade | 2,135,920.78 | - | 2,135,920.78 | 177,618.66 | (2,313,539.44) | - |
| EY Berry Renovations | - | - | - | 115,805.74 | - | 115,805.74 |
| Campus Wide energy Measures | - | - | - | 2,224,563.43 | - | 2,224,563.43 |
| Total Construction in Progress | \$ 2,482,591.97 | \$ - | \$ 2,482,591.97 | \$ 2,747,242.79 | \$(2,700,115.98) | \$ 2,529,718.78 |

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

(4) Compensated Absences

A summary of changes in Compensated Absences follows:

| | 2019 | Accrued | Used | 2020 | Current Portion |
|-----------------------------------|------------------------|----------------------|------------------------|------------------------|----------------------|
| Annual Leave | \$ 1,071,426.01 | \$ 738,089.00 | \$ 838,047.25 | \$ 971,467.76 | \$ 593,299.99 |
| Sick Leave | 1,671,833.29 | 245,354.28 | 217,359.96 | 1,699,827.61 | 240,594.27 |
| Total Compensated Absences | \$ 2,743,259.30 | \$ 983,443.28 | \$ 1,055,407.21 | \$ 2,671,295.37 | \$ 833,894.26 |

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(5) Long Term Debt and Restricted Net Position

Bonds Payable, Net of Premiums at June 30, 2020:

| | Bond | Premium | Net | Current Portion |
|--|-------------------------|----------------------|-------------------------|------------------------|
| 2014B Revenue Bond (originally the 2004A Student Union and Thomas Hall Renovations); matures in 2026; semi-annual payments bearing interest between 3.00% - 5.00%; paid with General Activity Fees | \$ 1,020,000.00 | \$ 132,205.48 | \$ 1,152,205.48 | \$ 175,182.00 |
| 2014A Revenue Bond (originally the Crow Peak Hall and Thomas Hall Renovations); matures in 2039; semi-annual payments bearing interest between 3.00% - 5.00%; paid with Residence Halls auxiliary revenues | 7,595,000.00 | 352,586.36 | 7,947,586.36 | 519,058.73 |
| 2007 Revenue Bond; matures in 2029; semi-annual payments bearing interest at 3.88%; paid with Bookstore and Dining auxiliary revenues and General Activity Fees | 4,450,000.00 | - | 4,450,000.00 | 420,000.00 |
| 2006 Revenue Bond; matures in 2026; semi-annual payments bearing interest at 3.92%; paid with Parking auxiliary revenues | 500,000.00 | - | 500,000.00 | 75,000.00 |
| Total Bonds Payable, Net Premium | \$ 13,565,000.00 | \$ 484,791.84 | \$ 14,049,791.84 | \$ 1,189,240.73 |

The Board of Regents authorized revenue bonds to finance the Student Union expansion, residence hall renovations, Lionel Bordeaux residence hall (previously Crow Peak Residence Hall), and parking lot improvements. Principal and interest payments are paid from auxiliary operating revenues and general activity fees. Net revenues pledged to bonds payable for the year ending June 30, 2020 were **\$2,454,814.74**. Restricted Net Position – Expendable Other of **\$1,923,194.00** was for the repair and replacement reserve bond requirements. Assets are held to be used for unusual or extraordinary maintenance or repairs, renewals, renovations and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the facilities.

Deferred Outflows of Resources represents the Loss on Debt Refinancing from the 2014B and 2014A revenue bonds. The Loss on Debt Refinancing is the difference between the reacquisition price and the net carrying amount of the refinanced debt. This amount is to be amortized over the life of the refinanced bonds.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(5) Long Term Debt and Restricted Net Position (Continued)

The changes in Bonds Payable for the year ended June 30, 2020 follows:

| | 2019 | Proceeds | Payments | 2020 |
|---------------|-------------------------|-------------|--------------------------|--------------------------------|
| 2014B Bond | \$ 1,160,000.00 | \$ - | \$ (140,000.00) | \$ 1,020,000.00 |
| 2014B Premium | 157,387.48 | - | (25,182.00) | 132,205.48 |
| 2014A Bond | 8,075,000.00 | - | (480,000.00) | 7,595,000.00 |
| 2014A Premium | 371,645.09 | - | (19,058.73) | 352,586.36 |
| 2007 Bond | 4,855,000.00 | - | (405,000.00) | 4,450,000.00 |
| 2006 Bond | 575,000.00 | - | (75,000.00) | 500,000.00 |
| | <u>\$ 15,194,032.57</u> | <u>\$ -</u> | <u>\$ (1,144,240.73)</u> | <u>\$ 14,049,791.84</u> |

Debt service requirements follows:

| Year(s) | Principal | Interest | Total | Premiums |
|-----------|--------------------------------|-------------------------------|--------------------------------|-----------------------------|
| 2021 | 1,145,000.00 | 591,137.00 | 1,736,137.00 | 44,240.73 |
| 2022 | 1,210,000.00 | 539,013.00 | 1,749,013.00 | 44,240.73 |
| 2023 | 1,255,000.00 | 484,014.00 | 1,739,014.00 | 44,240.73 |
| 2024 | 995,000.00 | 426,836.00 | 1,421,836.00 | 44,240.73 |
| 2025 | 1,035,000.00 | 383,033.00 | 1,418,033.00 | 44,240.73 |
| 2026-2030 | 4,035,000.00 | 1,301,163.00 | 5,336,163.00 | 101,589.13 |
| 2031-2035 | 1,965,000.00 | 817,375.00 | 2,782,375.00 | 95,293.65 |
| 2036-2038 | 1,410,000.00 | 449,162.50 | 1,859,162.50 | 57,176.19 |
| 2039 | 515,000.00 | 24,462.50 | 539,462.50 | 9,529.22 |
| | <u>\$ 13,565,000.00</u> | <u>\$ 5,016,196.00</u> | <u>\$ 18,581,196.00</u> | <u>\$ 484,791.84</u> |

Capital lease agreements were entered into in FY20 with (US Bancorp) for the campus-wide energy conservation project.

| | |
|-------------------------|--------------------|
| Ending Balance 06/30/19 | \$ - |
| Additions FY20 | 2,705,280.82 |
| Principal Paid in FY20 | <u>(87,286.64)</u> |
| Ending Balance 06/30/20 | \$ 2,617,994.18 |

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(5) Long Term Debt and Restricted Net Position (Continued)

The annual requirements to amortize these long-term leases, as of June 30, 2020, are as follows:

| Year | Principal | Interest | Total |
|-----------|------------------------|----------------------|------------------------|
| 2021 | 178,428.26 | 91,635.04 | 270,063.30 |
| 2022 | 183,694.50 | 86,368.80 | 270,063.30 |
| 2023 | 189,116.18 | 80,947.12 | 270,063.30 |
| 2024 | 194,697.88 | 75,365.42 | 270,063.30 |
| 2025 | 200,444.32 | 69,618.98 | 270,063.30 |
| 2026-2030 | 1,094,532.55 | 255,783.95 | 1,350,316.50 |
| 2031-2035 | 577,080.49 | 43,090.60 | 620,171.09 |
| | \$ 2,617,994.18 | \$ 702,809.91 | \$ 3,320,804.09 |

(6) Retirement Plan

The South Dakota Retirement System (SDRS or the System) is a cost sharing, multiple employer public employee retirement system (PERS) established to provide retirement benefits for employees of the State and its political subdivisions. Members of SDRS include full time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities. Public schools, cities, and counties may choose not to include certain full time employees in the System.

SDRS is considered a part of the State financial reporting entity and is included in the State's financial report as a pension trust fund. Authority for establishing, administering, and amending plan provisions is found in South Dakota Codified Law (SDCL) 3-12. Copies of the audited SDRS financial statements are available at <http://www.sdrs.sd.gov/>.

As the University is a component unit of the State, the University's proportionate share of SDRS activity and balances are calculated and reported in the State's CAFR. The University's share of contributions to SDRS for the fiscal years ended June 30, 2020, 2019, and 2018 were \$1,252,578.12, \$1,258,680.00, and \$1,252,234.07 respectively, equal to the required contributions each year.

(7) Deferred Compensation Plan

Through the State, the University maintains a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary. The University has no liability for losses under the plan.

The assets of the deferred compensation plan are not included in the accompanying financial statements because the assets are remitted to a third party who administers and markets the plan for the participants. A copy of the South Dakota Retirement System financial statements is available to the public at <http://www.sdrs.sd.gov/>.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(8) Risk Management

The Risk Management Program was created to protect the assets and resources of the State through efficient control and financing of risks inherent in government operations by ensuring a safe environment for State employees and the general public. Responsibilities include ensuring that exposures to financial loss are discovered and handled appropriately, minimizing the possible interruption of vital public services, and reducing the costs and consequences of accidents through effective loss control management.

Housed with the Risk Management Program is the Public Entity Pool for Liability (PEPL), a self-insurance program created to cover risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability; medical malpractice liability; law enforcement liability; and products liability).

The South Dakota Property and Casualty Insurance Company, LLC, a discretely presented component unit of the State, provides property, including content, business income, and extra expense coverage on the State's buildings.

(9) Litigation

At June 30, 2020, the University was not involved in any lawsuits.

(10) Tuition and Fees

For the year ending June 30, 2020, the University collected and remitted state support tuition and system fees to the Board of Regents as follows:

| | |
|--|--------------------------------|
| State Support Tuition & Fees | \$ 7,980,282.94 |
| HEFF Dollars from State Support Tuition & Fees | 2,005,304.83 |
| HEFF Dollars from Self Support Tuition | 1,422,740.51 |
| <u>Tuition Remittance to BOR</u> | <u>\$ 11,408,328.28</u> |

The Higher Education Facilities Fund (HEFF) allocates 11.5% of tuition and fees from all state support universities to building improvements.

The University's allocation from the Board of Regents' Tuition and Fees Fund is as follows:

| | |
|---|--------------------------------|
| State Support Tuition & Fees | \$ 8,038,207.78 |
| HEFF (Capital Contribution) | 1,111,752.91 |
| HEFF (Non-Operating Revenue) | 996,101.89 |
| <u>University's Allocation from Board's Tuition and Fees Fund</u> | <u>\$ 10,146,062.58</u> |

(11) State Appropriations

The General Fund Appropriation of **\$10,562,595.50** reported on the Statement of Revenues, Expenses, and Changes in Net Position is reflective of the amount spent during the year ending June 30, 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

(12) Prior Period Adjustments

| | |
|--|-------------------------|
| Net Position - Beginning of Year | \$ 78,137,151.12 |
| Prior Period Adjustments | |
| A/D - Equipment | (944.99) |
| Infrastructure | 277,897.50 |
| A/D - Infrastructure | (7,855.74) |
| Total Prior Period Adjustments | 269,096.77 |
| Net Position - Beginning of Year Restated | \$ 78,406,247.89 |

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2020

(13) Functional Expenses

| | Personal Services | Travel | Contractual Services | Supplies & Materials | Grants & Subsidies | Other & Bad Debt Expense | Depreciation | Total |
|-----------------------|-------------------------|----------------------|------------------------|-------------------------|------------------------|-----------------------------|------------------------|-------------------------|
| Instruction | \$ 13,834,657.66 | \$ 103,102.53 | \$ 746,670.98 | \$ 306,961.98 | \$ 23,200.00 | \$ 161.18 | \$ 1,508,824.70 | \$ 16,523,579.03 |
| Research | 682,777.93 | 39,077.14 | 50,713.21 | 233,563.55 | 64,830.20 | - | 107,847.04 | 1,178,809.07 |
| Public Service | 526,612.77 | 60,405.88 | 97,617.20 | 79,449.34 | 3,900.00 | - | 542.00 | 768,527.19 |
| Academic Support | 3,199,344.21 | 62,675.76 | 528,216.73 | 631,897.26 | 1,750.00 | - | 305,526.61 | 4,729,410.57 |
| Student Services | 4,370,587.99 | 584,046.76 | 857,734.79 | 487,521.71 | 1,067.18 | 18,057.19 | 475,004.26 | 6,794,019.88 |
| Institutional Support | 4,460,138.65 | 19,847.40 | 1,180,299.51 | 252,174.29 | 100.00 | 52,370.87 | 206,105.03 | 6,171,035.75 |
| O&M of Plant | 2,591,130.24 | 59,647.14 | 1,380,301.81 | 424,806.58 | 95.00 | 1,647.01 | 1,336,861.37 | 5,794,489.15 |
| Scholarships | - | - | - | - | 2,856,579.63 | 23,827.61 | - | 2,880,407.24 |
| Auxiliaries | 1,635,416.99 | 8,934.79 | 1,865,582.09 | 1,234,531.07 | - | - | 692,045.23 | 5,436,510.17 |
| Total | \$ 31,300,666.44 | \$ 937,737.40 | \$ 6,707,136.32 | \$ 3,650,905.78 | \$ 2,951,522.01 | \$ 96,063.86 | \$ 4,632,756.24 | \$ 50,276,788.05 |

Other & Bad Debt Expense:

| | |
|-------------------------------------|---------------------|
| Bad Debt Expense | \$ 18,057.19 |
| Loan Cancellation Expense | 23,827.61 |
| Interest | 54,179.06 |
| Total & Bad Debt Expense | \$ 96,063.86 |

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

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

Purpose

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

Program Services

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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

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

Net Assets Restricted by Time or Purpose - These net assets consist of donor contributions and grant funds that have been received by the Foundation but have not yet been expended for the purpose specified by the donor or grantor.

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

Cash and Cash Equivalents and Short-term Investments

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

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

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

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

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

Promises to Give

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

Investments

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

Collections

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. All purchases or donations of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Land is not a depreciable asset.

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

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

Contributed Materials and Services

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

Income Tax Status

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

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

As of December 31, 2019, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Foundation's income tax filings are subject to audit by various taxing authorities. The Foundation is no longer subject to federal and state income tax examinations by taxing authorities for years before 2016. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Foundation believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Functional Allocation of Expenses

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

Accounting Pronouncements Adopted

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

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

Reclassifications

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

NOTE 3 - LIQUIDITY AND AVAILABILITY

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

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

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

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

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

NOTE 4 - PROMISES TO GIVE

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

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

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

NOTE 5 - ASSETS HELD FOR OTHERS

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

The organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation (depreciation). Accordingly, their share of the managed funds is recorded as a liability in the accompanying Statement of Financial Position. In addition, these organizations have other assets (cash) that have been co-mingled with the Foundation and are also included in the liability balance at December 31, 2019 and 2018.

NOTE 6 - ENDOWMENT FUNDS

The Foundation's endowment consists of various individual funds established for a variety of purposes. The Board of Directors, on the advice of legal counsel, has determined that contributions to the Foundation that are not designated for specific endowments or purpose and that do not have written donor agreements, but for which management has reason to believe the contribution was intended for the endowment, will be classified as donor-restricted endowments restricted in perpetuity in which the corpus of the donation will be protected. However, if the original corpus of the donation is unknown, or if there is reason to believe the corpus is expendable, the Foundation classifies the contribution as donor-restricted endowments restricted by time. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

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

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

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

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

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

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

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

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

| | 2019 | | |
|---|---------------------------------------|-----------------------------|----------------------|
| | Accumulated Earnings Investment | Restricted in Perpetuity | Total Endowment |
| Endowment Net Assets, Beginning | \$ 2,287,530 | \$ 12,705,076 | \$ 14,992,606 |
| Contributions to Endowment | 51,015 | 644,579 | 695,594 |
| Net Appreciation on Investments | 2,566,362 | - | 2,566,362 |
| Management Fees Charged to Endowment | (483,586) | - | (483,586) |
| Purpose Restrictions Accomplished | (602,725) | - | (602,725) |
| Endowment Net Assets, Ending | <u>\$ 3,818,596</u> | <u>\$ 13,349,655</u> | <u>\$ 17,168,251</u> |
| | 2018 | | |
| | Accumulated Earnings Investment | Restricted in Perpetuity | Total Endowment |
| Endowment Net Assets, Beginning | \$ 3,848,804 | \$ 12,305,996 | \$ 16,154,800 |
| Repayment of Negative Balances | (40,299) | - | (40,299) |
| Contributions to Endowment | 20,727 | 399,080 | 419,807 |
| Net Appreciation on Investments | (772,461) | - | (772,461) |
| Management Fees Charged to Endowment | (245,823) | - | (245,823) |
| Purpose Restrictions Accomplished | (523,418) | - | (523,418) |
| Endowment Net Assets, Ending | <u>\$ 2,287,530</u> | <u>\$ 12,705,076</u> | <u>\$ 14,992,606</u> |

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019 and 2018, there were no donor-restricted funds with deficiencies.

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

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

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

Strategies Employed for Achieving Objectives

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

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

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

NOTE 7 - FAIR MARKET VALUE MEASUREMENTS

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

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

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

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

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Foundation did not have any Level III-type investments as of December 31, 2019 and 2018.

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

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

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

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

NOTE 7 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

| | 2018 | | |
|------------------------------|----------------------|---------------------|----------------------|
| | Level I | Level II | Total |
| Certificates of Deposit | \$ 912,515 | \$ - | \$ 912,515 |
| Mutual Funds: | | | |
| Global Mixed | 273,684 | - | 273,684 |
| Domestic Equity | 113,147 | - | 113,147 |
| US Treasury Bond Funds | 107,587 | - | 107,587 |
| Fixed Income | 3,067,539 | - | 3,067,539 |
| International Equity | 2,458,076 | - | 2,458,076 |
| Floating Rate Funds | 96,703 | - | 96,703 |
| Large Cap | 4,786,886 | - | 4,786,886 |
| Mid Cap | 982,892 | - | 982,892 |
| Mortgage Security Bond Funds | 383,751 | - | 383,751 |
| Small Cap | 81,130 | - | 81,130 |
| Real Estate | - | 166,701 | 166,701 |
| Municipal Bonds | - | 1,500,462 | 1,500,462 |
| Structured Debt | - | 699,910 | 699,910 |
| Corporate Bonds: | | | |
| Utilities | - | 20,352 | 20,352 |
| Financial | 187,027 | 573,320 | 760,347 |
| Consumer Goods | - | 116,815 | 116,815 |
| Healthcare | - | 26,182 | 26,182 |
| Conglomerates | - | 278,556 | 278,556 |
| Total Investments | <u>\$ 13,450,936</u> | <u>\$ 3,382,297</u> | <u>\$ 16,833,233</u> |
| Short-term Investments: | | | |
| Cash and Cash Equivalents | <u>\$ 779,516</u> | <u>\$ -</u> | <u>\$ 779,516</u> |
| Annuity Liabilities | <u>\$ -</u> | <u>\$ 231,627</u> | <u>\$ 231,627</u> |

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

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

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

NOTE 7 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

The Foundation measures pledges receivable at fair market value on a non-recurring basis using unobservable inputs. Pledges receivable are measured at fair market value based on the expected future cash flows and the creditworthiness of the donor as explained in Note 4.

The Foundation measures annuity liabilities based on the donors' life expectancies and the use of 2.0% - 2.40% discount rates as explained in Note 10.

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

NOTE 8 - CASH SURRENDER VALUE OF LIFE INSURANCE

The cash surrender value of life insurance is recorded based on estimated amounts available upon surrender of the policies. During the year ended December 31, 2014, the Foundation borrowed against the cash surrender value of life insurance to finance the cost of construction of the Alumni Center. The loan was paid off during the year ended December 31, 2019. The balance of the loan against the policy was \$19,238 as of December 31, 2018. Therefore, the value recorded represented the contract value less the outstanding loan balance.

NOTE 9 - PROPERTY AND EQUIPMENT

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

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

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

NOTE 10 - ANNUITY LIABILITY

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

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

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

NOTE 11 - LONG-TERM DEBT

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

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

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

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

During the years ended December 31, 2019 and 2018, the Foundation incurred \$28,035 and \$21,016 of interest expense related to the notes payable.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

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

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

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

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

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS AND RECLASSIFICATIONS

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

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

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

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

A reclassification of equity from with donor restrictions to without donor restrictions in the amount of \$1,184,129 for the year ended December 31, 2018 is reflected in the statement of financial position. This reclassification related to the implementation of ASU 2-16-14 and the release of donated assets that were placed into service in a prior year, in accordance with this standard. The reclassification also required the related depreciation expense for these assets to be removed from the released from restrictions total in 2018.

NOTE 14 - RELATED-PARTY TRANSACTIONS

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

During the years ended December 31, 2019 and 2018 rental income was received from a lease agreement with the University for the University President's residence. As of December 31, 2019 and 2018, the cost of assets included in property and equipment being leased to the University totaled \$1,333,822. Accumulated depreciation related to these assets was \$123,782 as of December 31, 2019 and \$97,610 as of December 31, 2018.

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

NOTE 14 - RELATED-PARTY TRANSACTIONS (CONTINUED)

The University also provides staff to the Foundation. The in-kind donations of employee time include services that affect all functions of the Foundation. The estimated cost to the University, or benefit to the Foundation, as a result of the University providing these in-kind staffing contributions was \$308,258 and \$299,826 for the years ended December 31, 2019 and 2018, respectively, which includes salaries and benefits. The staffing contributions are not recorded in the financial statements, as these in-kind contributions do not meet the requirements under accounting principles generally accepted in the United States of America.

NOTE 15 - LEASES

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

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

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

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

NOTE 16 - EMERGING ACCOUNTING STANDARDS

During the year ended December 31, 2021, the Foundation plans to implement FASB Topic 842. This update requires the recording of lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. The Foundation is in the process of assessing the effect on the financial statements.

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

NOTE 17 - SUBSEQUENT EVENTS

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

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