

BLACK HILLS STATE UNIVERSITY FOUNDATION

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

CASEY  PETERSON
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

Black Hills State University Foundation
Table of Contents
December 31, 2016

| | <u>PAGE</u> |
|--|-------------|
| Independent Auditor's Report..... | 1 - 2 |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position..... | 5 |
| Statement of Activities..... | 6 - 7 |
| Statement of Cash Flows..... | 8 - 9 |
| Notes to the Financial Statements..... | 10 - 19 |
| SUPPLEMENTARY INFORMATION | |
| Statement of Functional Expenses..... | 22 - 23 |

Independent Auditor's Report

To the Board of Trustees
Black Hills State University Foundation
Spearfish, South Dakota

We have audited the accompanying financial statements of Black Hills State University Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hills State University Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Report on Supplementary Information

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

A handwritten signature in blue ink that reads "Casey Peterson, LTD." The signature is written in a cursive, flowing style.

Casey Peterson, Ltd.

Rapid City, South Dakota

August 4, 2017

FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Black Hills State University Foundation
Statement of Financial Position
December 31, 2016

| ASSETS | |
|---|-----------------------------|
| Cash and Cash Equivalents | \$ 103,033 |
| Short-term Investments | 588,658 |
| Accounts Receivable | 2,345 |
| Prepaid Expenses | 6,187 |
| Pledges Receivable, Net of Allowance and Discount | 260,576 |
| Related Party Note Receivable | 23,266 |
| Investments | 16,295,030 |
| Cash Surrender Value of Life Insurance | 1,237,645 |
| Collections | 44,895 |
| Property and Equipment, Net | <u>3,060,782</u> |
| TOTAL ASSETS | <u>\$ 21,622,417</u> |
| LIABILITIES | |
| Accounts Payable | \$ 28,563 |
| Amounts Held for Others | 2,176,501 |
| Deferred Revenue | 21,000 |
| Annuity Liability | 374,612 |
| Long-term Debt | <u>653,704</u> |
| TOTAL LIABILITIES | <u>3,254,380</u> |
| NET ASSETS | |
| Unrestricted | 342,920 |
| Temporarily Restricted | 6,735,236 |
| Permanently Restricted | <u>11,289,881</u> |
| TOTAL NET ASSETS | <u>18,368,037</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 21,622,417</u> |

See the accompanying notes and independent auditor's report.

Black Hills State University Foundation
Statement of Activities
For the Year Ended December 31, 2016

UNRESTRICTED NET ASSETS

Revenues and Other Support:

| | |
|---------------------|--------------|
| Contributions | \$ 91,666 |
| Rental Income | 47,120 |
| Management Fee | 36,449 |
| Emergency Loan Fees | 440 |
| Insurance Proceeds | 60 |
| Interest Income | <u>5,268</u> |

Total Revenues and Other Support 181,003

Reclassifications of Net Assets 32,889

Net Assets Released From Restrictions 2,145,191

Total Support and Reclassifications 2,359,083

Expenses:

Program Services:

| | |
|-------------------------|-----------|
| Scholarships and Awards | 769,221 |
| University Support | 1,149,605 |
| Alumni Association | 47,070 |
| Presidential Support | 48,654 |

Supporting Services:

| | |
|------------------------|----------------|
| Management and General | 106,312 |
| Fundraising | <u>166,365</u> |

Total Expenses 2,287,227

CHANGE IN UNRESTRICTED NET ASSETS 71,856

TEMPORARILY RESTRICTED NET ASSETS

| | |
|--|--------------------|
| Contributions | 1,063,275 |
| Grants | 93,327 |
| Increase in Cash Surrender Value of Life Insurance | 85,529 |
| Investment Gains | 993,971 |
| Miscellaneous Income | 7,139 |
| Reclassifications of Net Assets | (41,492) |
| Net Assets Released From Restrictions | <u>(2,145,191)</u> |

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS 56,558

See the accompanying notes and independent auditor's report.

PERMANENTLY RESTRICTED NET ASSETS

| | |
|---------------------------------|--------------|
| Contributions | 287,199 |
| Reclassifications of Net Assets | <u>8,603</u> |

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS295,802**CHANGE IN NET ASSETS**

424,216

NET ASSETS, BEGINNING17,943,821**NET ASSETS, ENDING**\$ 18,368,037

See the accompanying notes and independent auditor's report.

Black Hills State University Foundation
Statement of Cash Flows
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------------|
| Receipts from Donors | \$ 1,386,015 |
| Rent Receipts | 86,775 |
| Other Operating Cash Receipts | 44,088 |
| Interest Receipts | 320,355 |
| Interest Paid | (57,330) |
| Cash Payments to Suppliers of Goods and Services | <u>(2,291,089)</u> |
| Net Cash Used by Operating Activities | <u>(511,186)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|------------------|
| Net Change in Amounts Held for Others | (113,776) |
| Receipts on Related-party Notes Receivable | 11,006 |
| Net Collections on Loans Receivable | 125 |
| Purchase of Property and Equipment | (15,874) |
| Purchases of Investments | (1,627,285) |
| Proceeds from Sales of Investments | <u>807,511</u> |
| Net Cash Used by Investing Activities | <u>(938,293)</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------|
| Contributions Restricted to Permanent Endowment | 1,366,619 |
| Payments on Loan Against Cash Surrender Value of Life Insurance | (155,000) |
| Payments on Annuity Liability | (75,379) |
| Principal Paid on Long-term Debt | <u>(17,209)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>1,119,031</u> |

| | |
|---------------------------------------|-----------|
| Decrease in Cash and Cash Equivalents | (330,448) |
|---------------------------------------|-----------|

| | |
|--|----------------|
| CASH AND CASH EQUIVALENTS - BEGINNING | <u>433,481</u> |
|--|----------------|

| | |
|---|--------------------------|
| CASH AND CASH EQUIVALENTS - ENDING | <u><u>\$ 103,033</u></u> |
|---|--------------------------|

See the accompanying notes and independent auditor's report.

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

| | |
|---|----------------------------|
| Change in Net Assets | \$ 424,216 |
| Adjustments to Reconcile Change in Net Assets to | |
| Net Cash Used by Operating Activities: | |
| Depreciation Expense | 84,433 |
| Net Realized and Unrealized Gains on Investments | (749,150) |
| Contributions Restricted to Permanent Endowment | (1,366,619) |
| Increase in Cash Surrender Value of Life Insurance Policy | (85,529) |
| Change in Assets and Liabilities: | |
| Accounts Receivable | 18,655 |
| Prepaid Expenses | (114) |
| Pledges Receivable | 1,161,984 |
| Accounts Payable | (20,062) |
| Deferred Revenue | <u>21,000</u> |
| Net Cash Used by Operating Activities | <u><u>\$ (511,186)</u></u> |

See the accompanying notes and independent auditor's report.

Black Hills State University Foundation

Notes to the Financial Statements

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents and Short-term Investments

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Accounts receivable represent miscellaneous amounts owed to the Foundation for various purposes. Management expects to collect the entire balance owed and, therefore has not recorded an allowance.

Pledges Receivable

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

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Foundation carries its investments at their estimated fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Expenses related to investment revenues, including custodial fees and investment advisory fees, were \$66,803, and are included as a component of the investment gains reported in the change in temporarily restricted net assets within the Statement of Activities.

Collections

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

Property and Equipment

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

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

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

Income Tax Status

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

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

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2016, 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 2013. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings. The Foundation believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Estimates

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

Functional Allocation of Expenses

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

Liquidity

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

NOTE 2 - PLEDGES RECEIVABLE

As of December 31, 2016, pledges receivable included unconditional promises to give for the establishment of scholarship funds. These pledges are due as follows:

| | |
|--|-------------------|
| Receivable in Less Than One Year | \$ 198,530 |
| Receivable in One to Five Years | 75,124 |
| Receivable in More Than Five Years | <u>6,367</u> |
| Total Pledges Receivable | 280,021 |
| Less: Unamortized Discounts to Net Present Value | (6,412) |
| Less: Allowance for Uncollectible Pledges | <u>(13,033)</u> |
| Net Pledges Receivable | <u>\$ 260,576</u> |

Unconditional pledges receivable due in more than one year are discounted based on the credit worthiness of donors, which was 3.25% as of December 31, 2016. Other pledges are discounted at 6.25% based on agreements with donors.

NOTE 3 - ENDOWMENT FUNDS

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

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 3 - ENDOWMENT FUNDS (CONTINUED)

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.

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

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

As of December 31, 2016, all endowment net assets were donor restricted endowment funds. The composition of and changes in endowment net assets for the year ended December 31, 2016 were as follows:

| | Temporarily Restricted | Permanently Restricted | Total Endowment |
|--|---------------------------|---------------------------|----------------------|
| Endowment Net Assets, Beginning | \$ 2,500,700 | \$ 10,994,079 | \$ 13,494,779 |
| Reclassifications | (8,603) | 8,603 | - |
| Contributions to Endowment | 58,092 | 287,199 | 345,291 |
| Net Appreciation on Investments | 1,076,569 | - | 1,076,569 |
| Investment Fees | (66,803) | - | (66,803) |
| Investment Losses Repaid to Unrestricted Net Assets | (11,590) | - | (11,590) |
| Management Fees Charged to Endowment | (310,001) | - | (310,001) |
| Purpose Restrictions Accomplished | <u>(339,827)</u> | <u>-</u> | <u>(339,827)</u> |
| Endowment Net Assets, Ending | <u>\$ 2,898,537</u> | <u>\$ 11,289,881</u> | <u>\$ 14,188,418</u> |

As of December 31, 2016, the Foundation had a \$3,061 deficiency in the amount of temporarily restricted net assets that are required to be maintained under donor agreements. This deficiency is the result of overspending funds during the year.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS

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

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

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

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

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Foundation did not have any Level III-type investments as of December 31, 2016.

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, 2016

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

The fair value of each financial instrument in the table below was measured using input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments at December 31, 2016:

| | Level I | Level II | Total |
|-------------------------------|---------------------|----------------------|----------------------|
| | \$ | \$ | \$ |
| Certificates of Deposit | 346,282 | - | 346,282 |
| Mutual Funds: | | | |
| Domestic Equity | - | 389,675 | 389,675 |
| US Treasury Bond Funds | - | 93,327 | 93,327 |
| Fixed Income | - | 4,020,621 | 4,020,621 |
| Global Mixed | - | 271,913 | 271,913 |
| International Equity | - | 1,855,825 | 1,855,825 |
| Floating Rate Funds | - | 181,825 | 181,825 |
| Large Cap | - | 2,982,878 | 2,982,878 |
| Mid Cap | - | 439,192 | 439,192 |
| Mortgage Security Bond Funds | - | 84,877 | 84,877 |
| Alternative Investment Funds | - | 211,173 | 211,173 |
| Small Cap | - | 425,170 | 425,170 |
| Real Estate | - | 31,161 | 31,161 |
| Preferred Securities | - | 92,652 | 92,652 |
| Municipal Bonds | - | 1,507,729 | 1,507,729 |
| Equity Securities: | | | |
| Technology | 230,892 | - | 230,892 |
| Consumer Services | 146,544 | - | 146,544 |
| Utilities | 425,166 | - | 425,166 |
| Healthcare | 149,592 | - | 149,592 |
| Financial | 298,058 | - | 298,058 |
| Industrial Goods | 301,293 | - | 301,293 |
| Basic Materials | 14,166 | - | 14,166 |
| Consumer Goods | 135,341 | - | 135,341 |
| Energy | 104,973 | - | 104,973 |
| Foreign Common Stock | 18,402 | - | 18,402 |
| Structured Debt | - | 535,054 | 535,054 |
| Exchange Traded Funds, Equity | 58,804 | - | 58,804 |
| Corporate Bonds: | | | |
| Utilities | - | 20,268 | 20,268 |
| Financial | - | 281,816 | 281,816 |
| Consumer Goods | - | 118,302 | 118,302 |
| Conglomerates | - | 35,228 | 35,228 |
| Healthcare | - | 24,829 | 24,829 |
| Other Bonds | - | 462,002 | 462,002 |
| Total Investments | <u>\$ 2,229,513</u> | <u>\$ 14,065,517</u> | <u>\$ 16,295,030</u> |

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

| | Level I | Level II | Total |
|------------------------------|-------------------|-------------------|-------------------|
| Short-term Investments: | | | |
| Cash and Cash Equivalents | \$ 441,345 | \$ - | \$ 441,345 |
| Money Market Funds | 147,313 | - | 147,313 |
| Total Short-term Investments | <u>\$ 588,658</u> | <u>\$ -</u> | <u>\$ 588,658</u> |
| Annuity Liabilities | <u>\$ -</u> | <u>\$ 374,612</u> | <u>\$ 374,612</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.

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

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

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

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

NOTE 5 - RELATED-PARTY NOTE RECEIVABLE

In a prior period, the Foundation borrowed \$55,000 from a bank (see Note 10) and advanced the proceeds to the Yellow Jacket Foundation (the athletic support foundation for Black Hills State University). The loan proceeds were used for repairs to the football field on the University campus. The Yellow Jacket Foundation is conducting a capital campaign to raise funds for repayment of the note, however due to cash flow constraints related to pledge collections, it was necessary that the Foundation loan money to the Yellow Jacket Foundation for the project. The terms of the loan to the Yellow Jacket Foundation mirror those of the bank debt as described in Note 10. As of December 31, 2016 the balance on the loan was \$23,266. This balance is estimated to be fully collectible based on the relationship with the Yellow Jacket Foundation. As such, the Foundation does not have a policy for past due receivables.

NOTE 6 - CASH SURRENDER VALUE OF LIFE INSURANCE

The cash surrender value of life insurance is recorded based on estimated amounts available upon surrender of the policies. During the year ended December 31, 2014, the Foundation borrowed against the cash surrender value of life insurance in order to finance the cost of construction of the Alumni Center. The balance of the loan against the policy was \$145,963 as of December 31, 2016. Therefore, the value recorded represents contract value less the proceeds from the loan.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 consisted of the following:

| | |
|---|---------------------|
| Land | \$ 507,446 |
| Buildings and Improvements | 2,629,256 |
| Equipment and Furnishings | <u>250,518</u> |
| | 3,387,220 |
| Less: Accumulated Depreciation | <u>(326,438)</u> |
| Property and Equipment, Net of Accumulated Depreciation | <u>\$ 3,060,782</u> |

NOTE 8 - AMOUNTS HELD FOR OTHERS

The Foundation's investments include funds accepted for deposit from certain other non-profit organizations and certain clubs and student groups associated with Black Hills State University. The organizations have the right to withdraw all or a portion of their funds, as adjusted for unexpended earnings and market appreciation (depreciation). Accordingly, their share of the managed funds is recorded as a liability in the accompanying Statement of Financial Position. In addition, these organizations have other assets (cash) that have been co-mingled with the Foundation and are also included in the liability balance at December 31, 2016.

NOTE 9 - ANNUITY LIABILITY

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

During the year ending December 31, 2011, the Foundation was named a beneficiary of a \$15,000 gift annuity. Under the terms of the agreement, the Foundation established an annuity liability to the donor with the remaining proceeds to be temporarily restricted. The annuity liability was established based on the donor's life expectancy and the use of a 2.80% discount rate. The fair value of the assets to which the Foundation has rights to is included in pooled investments. During the year ended December 31, 2016, the donor passed away resulting in the Foundation recognizing the outstanding liability of \$7,891 as a contribution upon the date of death.

NOTE 10 - LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2016:

| | |
|---|-------------------|
| Note payable to a bank due in monthly installments of \$3,436 including 4.75% interest, due April 2044. This note is secured by real estate. | \$ 630,438 |
| Note payable to a bank due in annual installments of \$12,355 including 4% interest. Final installment is due October 2018. This note is unsecured. | <u>23,266</u> |
| | <u>\$ 653,704</u> |

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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

| | |
|----------------------------------|-------------------|
| For the Year Ending December 31, | |
| 2017 | \$ 22,948 |
| 2018 | 23,971 |
| 2019 | 12,694 |
| 2020 | 13,231 |
| 2021 | 13,953 |
| Thereafter | <u>566,907</u> |
| | <u>\$ 653,704</u> |

During the year ended December 31, 2016, the Foundation incurred \$35,032 of interest expense related to the notes payable.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

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

| | |
|---|---------------------|
| Scholarships, Awards, and Grants | \$ 3,004,454 |
| Fine Arts Fund | 928,229 |
| Welcome Center | 1,304,332 |
| Time Restriction on Long-term Receivables | 260,576 |
| Time Restriction on Life Insurance | <u>1,237,645</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 6,735,236</u> |

NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS

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

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS AND RECLASSIFICATIONS

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

| | |
|--------------------------------------|---------------------|
| Purpose Restrictions Accomplished: | |
| Scholarships Awarded | \$ 733,221 |
| BHSU Departmental Support | 1,100,995 |
| Management Fee Charged to Endowments | <u>310,975</u> |
| | <u>\$ 2,145,191</u> |

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2016

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

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted |
|---|------------------|---------------------------|---------------------------|
| Clarification of Donor Intent | \$ - | \$ (8,603) | \$ 8,603 |
| Deficit Spending Absorbed by Unrestricted Net Assets | <u>32,889</u> | <u>(32,889)</u> | <u>-</u> |
| Total Reclassifications | <u>\$ 32,889</u> | <u>\$ (41,492)</u> | <u>\$ 8,603</u> |

NOTE 14 - RELATED-PARTY TRANSACTIONS

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

In addition, substantially all rental income during the year ended December 31, 2016 was from a lease agreement with the University for the University President's residence. As of December 31, 2016, 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 \$45,267 as of December 31, 2016.

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 \$176,585 for the year ended December 31, 2016, which includes salaries and benefits. The staffing contributions are not recorded in the financial statements, as these in-kind contributions do not meet the requirements under accounting principles generally accepted in the United States of America.

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

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

In addition, approximately 60% of the pledges receivable balance at December 31, 2016 consisted of pledges from two donors.

NOTE 16 - SUBSEQUENT EVENTS

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

THIS PAGE INTENTIONALLY LEFT BLANK

SUPPLEMENTARY INFORMATION

Black Hills State University Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2016

| | Program Services | | | | |
|-------------------------|----------------------------|-----------------------|-----------------------|-------------------------|---------------------|
| | Scholarships and Awards | University Support | Alumni Association | Presidential Support | Total Programs |
| Scholarships | \$ 769,221 | \$ - | \$ - | \$ - | \$ 769,221 |
| Awards | - | 190,110 | - | - | 190,110 |
| Professional Fees | - | 773,196 | - | - | 773,196 |
| Payroll | - | - | - | - | - |
| Special Projects | - | 928 | - | - | 928 |
| Depreciation | - | 58,310 | - | - | 58,310 |
| Office Expense | - | 23,686 | 7,719 | - | 31,405 |
| Meals & Entertainment | - | 24,158 | 18,195 | 4,448 | 46,801 |
| Travel | - | 31,676 | 2,305 | 463 | 34,444 |
| Dues & Fees | - | 7,541 | 6,393 | 600 | 14,534 |
| Advertising | - | 8,883 | - | - | 8,883 |
| President Expenses | - | - | - | 7,503 | 7,503 |
| Insurance | - | - | - | - | - |
| Alumni Events | - | - | 11,979 | - | 11,979 |
| Interest Expense | - | 22,298 | - | 35,032 | 57,330 |
| Occupancy | - | 1,397 | - | - | 1,397 |
| Miscellaneous | - | 5,836 | 479 | 608 | 6,923 |
| Provision for Bad Debts | - | 1,586 | - | - | 1,586 |
| Total Expenses | <u>\$ 769,221</u> | <u>\$ 1,149,605</u> | <u>\$ 47,070</u> | <u>\$ 48,654</u> | <u>\$ 2,014,550</u> |

See independent auditor's report.

| Supporting Services | | |
|---------------------------|-------------------|---------------------|
| Management and General | Fundraising | Total |
| \$ - | \$ - | \$ 769,221 |
| - | - | 190,110 |
| 17,990 | 26,271 | 817,457 |
| 1,529 | 83,490 | 85,019 |
| 1,815 | - | 2,743 |
| 26,123 | - | 84,433 |
| 19,583 | 4,459 | 55,447 |
| 1,969 | 26,422 | 75,192 |
| 2,067 | 14,464 | 50,975 |
| 6,967 | 450 | 21,951 |
| 65 | 10,809 | 19,757 |
| - | - | 7,503 |
| 10,043 | - | 10,043 |
| - | - | 11,979 |
| - | - | 57,330 |
| 525 | - | 1,922 |
| 17,636 | - | 24,559 |
| - | - | 1,586 |
| <u>\$ 106,312</u> | <u>\$ 166,365</u> | <u>\$ 2,287,227</u> |

See independent auditor's report.