



**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

**BLACK HILLS STATE UNIVERSITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Reporting Entity

This section of the annual financial report presents management's discussion and analysis of Black Hills State University's (the University/BHSU) financial performance during the fiscal year ended June 30, 2016. This discussion 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 (the Board). As a constitutionally established entity, the Board 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 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, as such an individual audit opinion is not issued; however is included in the audit opinion of the State's Comprehensive Annual Financial Report (CAFR).

The Black Hills State University Foundation (the Foundation) is a component unit of the University. The University has no control or management responsibility over the Foundation. 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.

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, bachelor and master degree levels.

Mission Statement

Black Hills State University 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. BHSU 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. Black Hills State University 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

Black Hills State University will be South Dakota's honors liberal arts university that promotes sustainability, inclusivity, undergraduate research and global social change.

Values

As member of the Black Hills State University 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, 2016**

Strategic Goals

BHSU strives to inspire and support student success from recruitment to graduation.

Fall headcount enrollment declined to 4,395 in 2016 from 4,489 in 2015. Black Hills State University – Rapid City enrollment was 1,198 in 2016 and 1,254 in 2015. Dual credit students increased to 247 in 2016 from 191 in 2015, and first time degree students increased to 546 in 2016 from 507 in 2015 reflecting a 7.7% increase.

BHSU will provide innovative learning experience that facilitate academic achievement, research, and creative activity.

Class size remained constant at 19:1 for both 2016 and 2015. The University increased awards to Honors students from \$40,000 to \$120,000; increased awards to student athletes from \$566,984 to \$857,000; and increased annual grants awarded to faculty and staff from \$3.3 million to \$5.77 million in 2016.

The BHSU community will engage in partnerships, service, and enriched student experiences.

Housing occupancy decreased to 87% in 2016 from 93% in 2015; however, that includes an increase of 22 beds available to students with the opening of Crow Peak Hall and the demolition of Pangburn Hall. Renovations began in the Yellow Jacket Apartments to modernize the residences and be more appealing to students.

Students in alternative spring breaks and community service increased to 986 in 2016 from 714 in 2015. The number of student organizations and clubs increased from 63 to 77.

BHSU will develop and expand internal and external resources to become all we can imagine.

With the increase in donors to 2,367 from 2,278, BHSU Foundation endowments increased to \$15.67 million from \$14.6 million in 2016 from 2015. The number of trees planted, maintained, and donated increased to 1,038 in 2016 from 700 in 2015 as the University responded to a loss of approximately one-third of its tree resources from the Storm Atlas blizzard in 2013.

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 statements are prepared under the accrual basis of accounting, where revenues are recognized when the service is provided and expenses are recognized when incurred regardless of when cash is exchanged.

The University has provided analysis of major variances that occurred between fiscal years 2016 and 2015, as well as information regarding capital assets, debt administration, and an economic outlook. The management's discussion and analysis focuses on the University's operations, excluding the Foundation.

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights

Statements of Net Position

The Statements of Net Position present 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
June 30, 2016 and June 30, 2015**

Assets	2016	2015
Current Assets	\$ 16,145,254.84	\$ 18,250,667.36
Non-Current Assets	90,556,592.75	91,134,302.38
Total Assets	\$ 106,701,847.59	\$ 109,384,969.74
Deferred Outflows of Resources	\$ 84,024.42	\$ 88,901.55
Total Assets and Deferred Outflows of Resources	\$ 106,785,872.01	\$ 109,473,871.29
Liabilities		
Current Liabilities	\$ 4,825,646.89	\$ 5,315,210.04
Non-Current Liabilities	21,892,496.50	22,729,770.52
Total Liabilities	\$ 26,718,143.39	\$ 28,044,980.56
Net Position		
Net Investment in Capital Assets	\$ 70,213,249.85	\$ 69,638,945.89
Restricted	1,715,532.16	2,181,752.20
Unrestricted	8,138,946.61	9,608,192.64
Total Net Position	\$ 80,067,728.62	\$ 81,428,890.73
Total Liabilities and Net Position	\$ 106,785,872.01	\$ 109,473,871.29

Current Assets decreased approximately \$2 million as cash funded construction projects. Non-current assets remained comparable to 2015 as the completion of Crow Peak Residence Hall and the donation of two scoreboards was offset by the demolition of Pangburn Residence Hall and a prior period adjustment for accumulated depreciation. The University's largest asset is its investment in Buildings & Building Improvements which represents approximately \$76 million of non-current assets.

**Capital Assets, Net Accumulated Depreciation
June 30, 2016 and June 30, 2015**

	2016	2015
Land	\$ 234,350.00	\$ 189,350.00
Construction in Progress	4,533,434.16	14,751,298.01
Building & Building Improvements, Net	76,151,526.02	65,889,353.68
Land Improvements, Net	2,112,686.15	3,027,493.98
Infrastructure, Net	2,152,249.66	2,454,793.29
Equipment & Other Property, Net	3,331,734.20	2,608,750.85
Total Capital Assets, Net	\$ 88,515,980.19	\$ 88,921,039.81

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (Continued)

Statements of Net Position (Continued)

Construction in Progress includes a major investment in the utility and other infrastructure of the campus including a new electrical redundancy loop, sidewalk improvements, exterior lighting improvements, sewer upgrades, drainage ditch repair, improved campus irrigation, and technology infrastructure improvements all of which were completed in 2016. Planting new trees and upgrading the campus apartments are on-going multi-year projects beginning in 2016. The library will be completely replaced in 2017. Details are as follows:

	2016	2015
Utility Infrastructure	\$ 3,755,922.08	\$ 2,662,645.48
Bank Stabilization & Erosion Control	358,979.69	6,702.80
Jonas Electrical Upgrade	269,269.23	-
Tree Project	79,575.34	-
Apartments Upgrade	45,502.82	-
Library Roof & Parapet	24,185.00	21,278.00
Crow Peak Residence Hall	-	10,170,975.48
Jonas Science Renovations	-	1,394,549.00
Young Center Roof Replacement	-	495,147.25
Total Construction in Progress	\$ 4,533,434.16	\$ 14,751,298.01

Non-Current Liabilities decreased approximately \$850,000 primarily from debt repayments. Bonds payable is the University's largest liability totaling **\$18,386,754.76**.

**Non-Current Liabilities
June 30, 2016 and June 30, 2015**

	2016	2015
2014B Revenue Bond	\$ 1,787,933.48	\$ 1,933,115.48
2014A Revenue Bond	9,838,821.28	10,267,880.01
2007 Revenue Bond	5,980,000.00	6,325,000.00
2006 Revenue Bond	780,000.00	845,000.00
Compensated Absences Payable	2,592,395.65	2,457,729.65
Federal Capital Contribution Refundable Advance	2,790,579.00	2,790,579.00
Total Non-Current Liabilities	\$ 23,769,729.41	\$ 24,619,304.14
Due Within One Year	\$ 1,877,232.91	\$ 1,889,533.62

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (Continued)

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. The financial statements also include 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
For the Years Ending June 30, 2016 and 2015**

	2016	2015
Total Operating Revenues	\$ 35,304,281.93	\$ 32,507,432.07
Total Operating Expenses	(50,112,693.86)	(47,810,010.38)
Operating Loss	\$ (14,808,411.93)	\$ (15,302,578.31)
Non-Operating Revenues and Expenses	\$ 13,662,134.68	\$ 13,784,317.28
Other Revenues	2,075,472.40	2,775,363.03
Total Increase in Net Position	\$ 929,195.15	\$ 1,257,102.00
Net Position - Beginning of the year	\$ 81,428,890.73	\$ 79,470,276.51
Prior Period Adjustments	(2,290,357.26)	701,512.22
Net Position - End of the year	\$ 80,067,728.62	\$ 81,428,890.73

Total Operating Revenues increased approximately \$2.8 million, primarily due to an increase in Private Contracts and Grants. Included in Private Contracts and Grants, is approximately \$1 million received from the Foundation for Jonas Building Improvements. Tuition and Fees increased approximately \$700,000 due to rate increases.

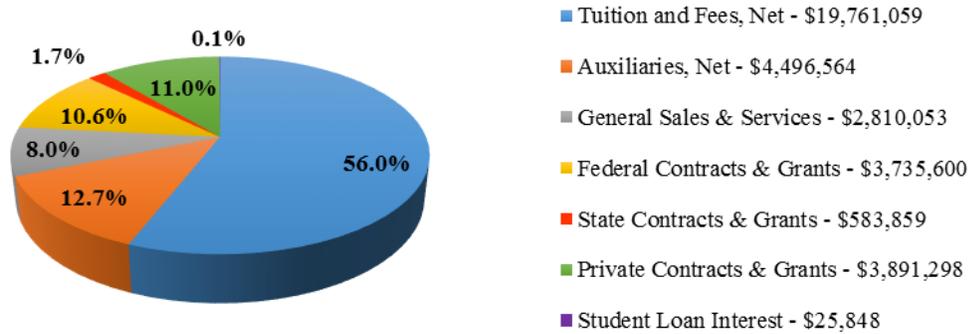
Total Operating Expenses increased approximately \$2.3 million. The University's costs in personal services decreased \$1.3 million as budgeted and was offset by an increase in supplies and materials due to capital projects and purchases under the capitalization thresholds. An increase of \$1 million in depreciation was the result of Crow Peak Residence Hall, Jonas Improvements, and the Black Hills State University – Rapid City.

Other Revenues decreased approximately \$700,000 primarily from South Dakota Building Authority (the Authority) Capital Financing. The University received bond proceeds from the Authority in 2015 for the Jonas Science Renovation and Infrastructure projects. In 2016 no bond proceeds were received for the Jonas project and it was placed in service during the year. The University received **\$1,090,504.02** of bond proceeds for the Infrastructure project in 2016.

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (Continued)

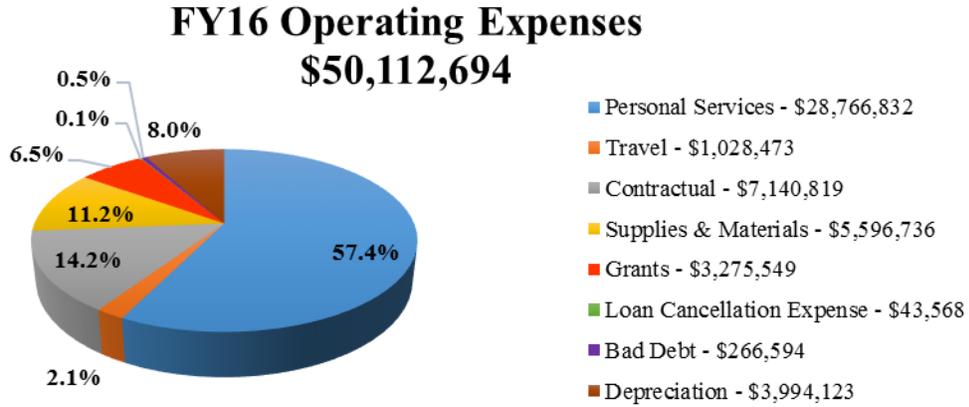
**FY16 Operating Revenues
\$35,304,282**



Operating Revenues	2016	2015	Increase (Decrease)
Tuition and Fees, Net	\$ 19,761,059	\$ 19,053,278	\$ 707,782
Auxiliaries, Net	4,496,564	4,307,079	189,485
General Sales & Services	2,810,053	2,821,530	(11,477)
Federal Contracts & Grants	3,735,600	3,141,093	594,507
State Contracts & Grants	583,859	991,747	(407,888)
Private Contracts & Grants	3,891,298	2,168,161	1,723,138
Student Loan Interest	25,848	24,544	1,304
Total Operating Revenues	\$ 35,304,282	\$ 32,507,432	\$ 2,796,850

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (Continued)

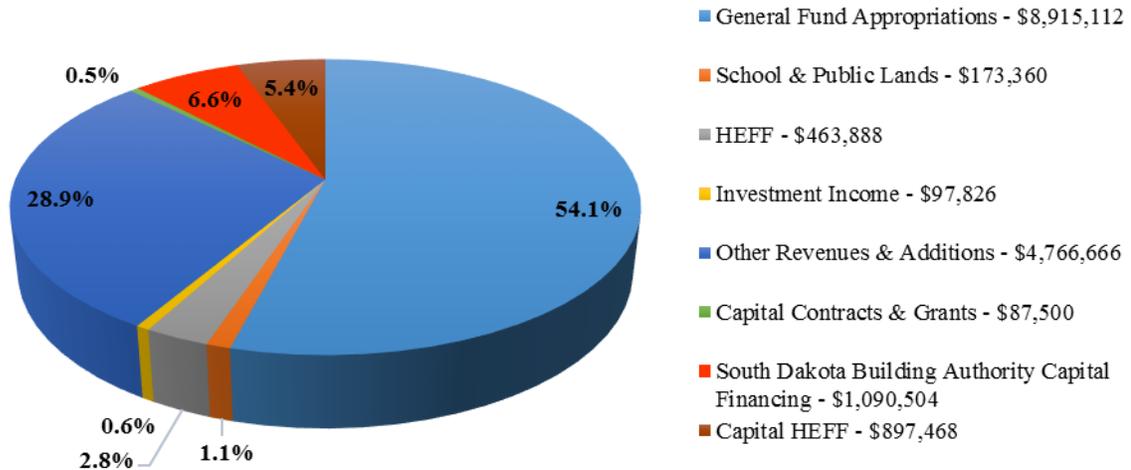


Operating Expenses	2016	2015	Increase (Decrease)
Personal Services	\$ 28,766,832	\$ 30,142,602	\$(1,375,770)
Travel	1,028,473	863,465	165,008
Contractual	7,140,819	6,182,049	958,770
Supplies & Materials	5,596,736	4,169,785	1,426,951
Grants	3,275,549	3,325,461	(49,912)
Loan Cancellation Expense	43,568	95,079	(51,511)
Bad Debt	266,594	81,078	185,516
Depreciation	3,994,123	2,950,492	1,043,631
Total Operating Expenses	\$ 50,112,694	\$ 47,810,010	\$ 2,302,683

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Highlights (Continued)

**FY16 Non - Operating & Other Revenues
\$16,492,324**



Non-Operating & Other Revenues	2016	2015	Increase (Decrease)
General Fund Appropriations	\$ 8,915,112	\$ 8,810,289	\$ 104,823
School & Public Lands	173,360	173,360	-
HEFF	463,888	226,363	237,525
Investment Income	97,826	200,092	(102,267)
Other Revenues & Additions	4,766,666	5,175,232	(408,566)
Capital Contracts & Grants	87,500	-	87,500
South Dakota Building Authority Capital Financing	1,090,504	2,122,183	(1,031,679)
Capital HEFF	897,468	653,180	244,289
Total Non-Operating & Other Revenues	\$ 16,492,324	\$ 17,360,699	\$ (868,375)

**BLACK HILLS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2016**

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
For the Years Ended June 30, 2016 and 2015**

Net Cash Provided/(Used) by	2016	2015
Operating Activities	\$ (11,241,375.75)	\$ (13,033,360.21)
Non-Operating Activities	14,142,838.54	14,385,754.50
Capital Related Activities	(5,544,757.79)	(11,120,367.74)
Investing Activities	195,156.59	158,687.97
Net Decrease in Cash	(2,448,138.41)	(9,609,285.48)
Cash - Beginning of the year	15,562,389.67	25,171,675.15
Cash - End of the year	\$ 13,114,251.26	\$ 15,562,389.67

The University's Cash decreased \$2.4 million from 2015. In 2015, the University received, and substantially spent, approximately \$4.1 million of bond proceeds for capital projects. These capital projects were completed and put in service in early 2016. As fewer and smaller projects occurred in 2016, there is a decrease in cash used for capital projects as noted above. The University also spent less cash for operating activities primarily due to reductions in personal services as budgeted.

Outlook for FY16 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. The University is positioned well for fiscal year 2017 and beyond under the leadership of our President, Thomas Jackson, Jr. The academic programs are strong and undergraduate research opportunities for students, scholarship funding, student experiential learning and international opportunities, and honors programming continue to increase.

Black Hills State University
Statements of Net Position
June 30, 2016 and June 30, 2015

Assets	2016	2015
<u>Current Assets</u>		
Cash & Cash Equivalents on Deposit - State Treasurer	\$ 12,586,988.84	\$ 14,040,151.14
Cash	153,597.86	1,123,554.33
Accounts Receivable - Students	1,174,221.12	1,115,095.58
Allowance for Doubtful Accounts - Students	(395,714.07)	(279,882.27)
Accounts Receivable - Department Sales	62,416.39	189,855.69
Notes Receivable	270,214.42	336,835.00
Interest Receivable	119,712.77	217,043.71
Inventory	800,029.29	698,142.29
Due from Federal Sources	1,288,952.61	684,339.42
Due from Primary Government	1,469.55	21,521.74
Due from Other Component Units	83,366.06	104,010.73
Total Current Assets	\$ 16,145,254.84	\$ 18,250,667.36
<u>Non-Current Assets</u>		
Restricted Cash & Cash Equivalents on Deposit - State Treasurer	\$ 373,664.56	\$ 398,684.20
Notes Receivable	1,666,948.00	1,814,578.37
Capital Assets:		
Land	234,350.00	189,350.00
Construction in Progress	4,533,434.16	14,751,298.01
Building & Building Improvements	105,887,684.08	91,873,108.03
Accumulated Depreciation - Building & Building Improvements	(29,736,158.06)	(25,983,754.35)
Land Improvements	4,645,527.63	4,645,527.63
Accumulated Depreciation - Land Improvements	(2,532,841.48)	(1,618,033.65)
Infrastructure	6,434,552.41	6,415,903.21
Accumulated Depreciation - Infrastructure	(4,282,302.75)	(3,961,109.92)
Equipment & Other Property	12,444,921.69	10,311,300.97
Accumulated Depreciation - Equipment & Other Property	(9,113,187.49)	(7,702,550.12)
Total Non-Current Assets	\$ 90,556,592.75	\$ 91,134,302.38
<u>Deferred Outflows</u>		
Loss on Debt Refinancing	\$84,024.42	\$88,901.55
Total Assets and Deferred Outflows	\$ 106,785,872.01	\$ 109,473,871.29

Black Hills State University
Statements of Net Position
June 30, 2016 and June 30, 2015

Liabilities	2016	2015
<u>Current Liabilities</u>		
Accounts Payable	\$ 328,727.17	\$ 397,569.47
Accrued Wages & Benefits	720,566.08	728,631.65
Accrued Interest Payable	192,456.25	201,439.75
Student Deposits	82,355.00	60,712.73
Agency Funds - Funds Held For Others	18,423.41	19,431.40
Unearned Revenue	322,752.99	395,862.68
Due to Primary Government	24,749.88	31,326.55
Due to Other Component Units	1,258,383.20	1,590,702.19
Compensated Absences Payable - Current Portion	852,992.18	905,292.89
Bonds Payable, Net Premium - Current Portion	1,024,240.73	984,240.73
Total Current Liabilities	\$ 4,825,646.89	\$ 5,315,210.04
<u>Non-Current Liabilities</u>		
Compensated Absences Payable - Non-Current	\$ 1,739,403.47	\$ 1,552,436.76
Bonds Payable, Net Premium - Non-Current	17,362,514.03	18,386,754.76
Federal Capital Contribution Refundable Advance	2,790,579.00	2,790,579.00
Total Non-Current Liabilities	\$ 21,892,496.50	\$ 22,729,770.52
Total Liabilities	\$ 26,718,143.39	\$ 28,044,980.56
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 70,213,249.85	\$ 69,638,945.89
Restricted		
Expendable		
Debt Service	373,664.56	398,684.20
Other	1,341,867.60	1,783,068.00
Unrestricted	8,138,946.61	9,608,192.64
Total Net Position	\$ 80,067,728.62	\$ 81,428,890.73
Total Liabilities and Net Position	\$ 106,785,872.01	\$ 109,473,871.29

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

Black Hills State University Foundation
Statement of Financial Position
December 31, 2015

ASSETS		
Cash and Cash Equivalents	\$	433,481
Short-term Investments		876,725
Accounts Receivable		21,000
Prepaid Expenses		6,073
Loans Receivable		125
Pledges Receivable, Net of Allowance and Discount		1,422,560
Related Party Note Receivable		34,272
Investments		14,438,038
Cash Surrender Value of Life Insurance		995,858
Collections		44,895
Property and Equipment, Net		<u>3,129,342</u>
TOTAL ASSETS	\$	<u>21,402,369</u>
LIABILITIES		
Accounts Payable	\$	48,625
Amounts Held for Others		2,289,019
Annuity Liability		449,991
Long-term Debt		<u>670,913</u>
TOTAL LIABILITIES		<u>3,458,548</u>
NET ASSETS		
Unrestricted		271,064
Temporarily Restricted		6,678,678
Permanently Restricted		<u>10,994,079</u>
TOTAL NET ASSETS		<u>17,943,821</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>21,402,369</u>

The accompanying notes to the Foundation financial statements are an integral part to this statement.

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2016 and June 30, 2015

Operating Revenues	2016	2015
<u>Tuition</u>		
State support	\$ 4,547,796.09	\$ 4,731,167.28
Self support	12,522,161.92	11,720,662.81
Total Tuition	\$ 17,069,958.01	\$ 16,451,830.09
<u>Fees</u>		
University Support Fee	\$ 2,176,909.36	\$ 2,214,183.99
Salary Competitiveness Fee	1,521,491.97	1,537,100.72
General Activity Fee	1,566,373.59	1,449,416.48
Special Discipline Fees	573,391.78	249,876.24
Lab Fees	-	194,757.64
Vehicle Registration	161,170.63	148,986.21
Technology Fee	665,932.53	623,147.74
Other Fees	64,541.77	10,945.25
Charges	66,834.32	62,571.79
Total Fees	\$ 6,796,645.95	\$ 6,490,986.06
Total Tuition and Fees	\$ 23,866,603.96	\$ 22,942,816.15
Student Financial Assistance	(4,105,544.81)	(3,889,538.65)
Total Tuition and Fees, Net of Student Financial Assistance	\$ 19,761,059.15	\$ 19,053,277.50
Auxiliaries	\$ 5,836,178.11	\$ 5,562,867.55
Scholarship Allowance	(1,339,614.19)	(1,255,788.16)
Auxiliaries, Net Scholarship Allowance	4,496,563.92	4,307,079.39
General Sales & Services	2,810,053.28	2,821,530.48
Contracts & Grants		
Federal	3,735,600.03	3,141,092.87
State	583,859.16	991,747.11
Private	3,891,298.42	2,168,160.67
Student Loan Interest	25,847.97	24,544.05
Total Operating Revenues	\$ 35,304,281.93	\$ 32,507,432.07

Black Hills State University
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2016 and June 30, 2015

Operating Expenses	2016	2015
Personal Services	\$ (28,766,832.19)	\$ (30,142,601.74)
Travel	(1,028,472.78)	(863,465.25)
Contractual	(7,140,818.62)	(6,182,048.75)
Supplies & Materials	(5,596,736.30)	(4,169,784.87)
Grants	(3,275,548.90)	(3,325,461.01)
Loan Cancellation Expense	(43,567.95)	(95,078.87)
Bad Debt	(266,593.97)	(81,077.74)
Depreciation	(3,994,123.15)	(2,950,492.15)
Total Operating Expenses	\$ (50,112,693.86)	\$ (47,810,010.38)
Operating Loss	\$ (14,808,411.93)	\$ (15,302,578.31)
<u>Non-Operating Revenues (Expenses)</u>		
General Fund Appropriations	\$ 8,915,112.03	\$ 8,810,288.84
School & Public Lands	173,360.00	173,360.00
HEFF	463,887.92	226,362.77
Investment Income	97,825.65	200,092.15
Interest on Capital Assets	(750,718.90)	(773,153.93)
Bond Issuance Costs	-	(27,864.48)
Loss on Disposal of Asset	(3,997.60)	-
Other Revenues & Additions	4,766,665.58	5,175,231.93
Total Non-Operating Revenues (Expenses)	\$ 13,662,134.68	\$ 13,784,317.28
Loss Before Other Revenues, Expenses, Gains or Losses	\$ (1,146,277.25)	\$ (1,518,261.03)
<u>Capital Contributions</u>		
Capital Contracts & Grants	\$ 87,500.00	\$ -
HEFF	897,468.38	653,179.79
South Dakota Building Authority Capital Financing	1,090,504.02	2,122,183.24
Total Capital Contributions	\$ 2,075,472.40	\$ 2,775,363.03
Increase in Net Position	\$ 929,195.15	\$ 1,257,102.00
Net Position, Beginning of Year	\$ 81,428,890.73	\$ 79,470,276.51
Prior Period Adjustments	(2,290,357.26)	701,512.22
Net Position, End of Year	\$ 80,067,728.62	\$ 81,428,890.73

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

**Black Hills State University Foundation
Statement of Activities
For the Year Ended December 31, 2015**

UNRESTRICTED NET ASSETS	
Revenues and Other Support	
Contributions	\$ 50,662
Rental Income	39,444
Management Fee	32,901
Emergency Loan Fees	761
Interest Income	8,694
Loss on Disposal of Fixed Assets	<u>(85,602)</u>
Total Revenues and Other Support	46,860
Reclassifications of Net Assets	(36,550)
Net Assets Released From Restrictions	<u>3,225,179</u>
Total Support and Reclassifications	<u>3,235,489</u>
Expenses	
Program Services	
Scholarships and Awards	633,280
University Support	2,189,503
Alumni Association	40,312
Presidential Support	160,692
Supporting Services	
Management and General	98,367
Fundraising	<u>173,050</u>
Total Expenses	<u>3,295,204</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(59,715)</u>
TEMPORARILY RESTRICTED NET ASSETS	
Contributions	2,544,764
Grants	95,709
Increase in Cash Surrender Value of Life Insurance	60,698
Loss on Disposal of Fixed Assets	(75,000)
Investment Losses	(214,695)
Miscellaneous Income	645
Reclassifications of Net Assets	24,906
Net Assets Released From Restrictions	<u>(3,225,179)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(788,152)</u>

PERMANENTLY RESTRICTED NET ASSETS	
Contributions	1,296,316
Reclassifications of Net Assets	<u>11,644</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	<u>1,307,960</u>
CHANGE IN NET ASSETS	460,093
NET ASSETS, BEGINNING	<u>17,483,728</u>
NET ASSETS, ENDING	<u>\$ 17,943,821</u>

The accompanying notes to the Foundation financial statements are an integral part to this statement.

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

Cash Flows from Operating Activities	2016	2015
Tuition and Fees, Net of Student Financial Assistance	\$ 19,551,171.44	\$ 18,782,278.49
Auxiliaries, Net Scholarship Allowance	4,416,319.19	4,313,131.94
General Sales & Services	2,937,492.58	2,689,281.06
Federal Contracts & Grants	3,130,986.84	3,359,056.82
State Contracts & Grants	360,406.16	1,150,262.61
Private Contracts & Grants	2,700,935.15	2,168,160.67
Loans Issued to Students	-	33,397.06
Loans Collected from Students	170,683.00	-
Student Loan Interest	25,847.97	24,544.05
Payments for Personal Services	(28,465,052.76)	(30,040,770.50)
Payments for Travel	(1,028,472.78)	(863,465.25)
Payments for Contractual	(6,100,565.04)	(6,967,197.18)
Payments for Supplies & Materials	(5,665,578.60)	(4,356,578.97)
Payments for Grants	(3,275,548.90)	(3,325,461.01)
Net Cash Flows from Operating Activities	\$ (11,241,375.75)	\$ (13,033,360.21)
 <u>Cash Flows from Non-Operating Activities</u>		
General Fund Appropriations	\$ 8,915,112.03	\$ 8,810,288.84
School & Public Lands	173,360.00	173,360.00
HEFF	463,887.92	226,362.77
Federal Loan Disbursements	-	(15,778,602.00)
Federal Loan Receipts	-	15,778,602.00
Net Change in Funds Held for Others	(1,007.99)	510.96
Other Revenues & Additions	4,766,665.58	5,175,231.93
Payments for Other Expenditures	(175,179.00)	-
Net Cash Flows from Non-Operating Activities	\$ 14,142,838.54	\$ 14,385,754.50
 <u>Cash Flows from Capital Related Activities</u>		
HEFF	\$ 897,468.38	\$ 653,179.79
South Dakota Building Authority Financing	1,090,504.02	2,122,183.24
Proceeds from Capital Debt	-	1,979,466.24
Revenue Bond Discounts and Related Costs	4,877.13	-
Principal Paid on Capital Debt	(940,000.00)	(3,250,000.00)
Interest Paid on Capital Debt	(803,943.13)	(773,153.93)
Purchase of Capital Assets	(5,793,664.19)	(11,852,043.08)
Net Cash Flows from Capital Related Activities	\$ (5,544,757.79)	\$ (11,120,367.74)
 <u>Cash Flows from Investing Activities</u>		
Investment Income	\$ 195,156.59	\$ 158,687.97
Net Decrease in Cash	\$ (2,448,138.41)	\$ (9,609,285.48)
Cash - Beginning of the year	15,562,389.67	25,171,675.15
Cash - End of the year	\$ 13,114,251.26	\$ 15,562,389.67

Black Hills State University
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used by Operating Activities		
Operating Loss	\$ (14,808,411.93)	\$ (15,302,578.31)
Adjustments to Reconcile Operating Loss to Net Cash Used by		
<u>Operating Activities:</u>		
Depreciation Expense	3,994,123.15	2,950,492.15
Bad Debt Expense	266,593.97	81,077.74
Loan Cancellation Expense	43,567.95	95,078.87
Prior Period Adjustment	(2,254.20)	-
<u>Changes in Assets and Liabilities</u>		
Accounts Receivable - Students	(209,887.66)	(271,058.33)
Accounts Receivable - Department Sales	127,439.30	(132,249.42)
Notes Receivables	170,683.00	33,397.06
Due From Federal Sources	(604,613.19)	130,130.27
Due From Primary Government	20,052.19	(2,993.81)
Due From Other Component Units	20,644.67	161,509.31
Prepaid Expense	-	57,776.57
Inventory	(101,887.00)	(20,419.74)
Accounts Payable	(68,842.30)	(843,376.64)
Accrued Wages & Benefits	167,113.38	90,092.32
Due to Primary Government	(6,576.67)	(51,483.12)
Due to Other Component Units	(332,318.99)	(114,891.24)
Student Deposits	21,642.27	6,052.55
Compensated Absences Payable	134,666.00	12,249.88
Unearned Revenue	(73,109.69)	87,833.68
Net Cash Used by Operating Activities	\$ (11,241,375.75)	\$ (13,033,360.21)
Noncash Activities		
Loss on Disposal of Asset	\$ 3,997.60	\$ (4,536.38)
Loss on Accounts Written Off	\$ -	\$ (1,505.60)

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

**Black Hills State University Foundation
Statement of Cash Flows
For the Year Ended December 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Donors	\$ 2,744,693
Rent Receipts	18,444
Other Operating Cash Receipts	34,307
Interest Receipts	308,516
Interest Paid	(23,090)
Cash Payments to Suppliers of Goods and Services	<u>(3,514,880)</u>
Net Cash Provided by Operating Activities	<u>(432,010)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Change in Amounts Held for Others	291,035
Receipts on Related-party Notes Receivable	10,567
Net Advances on Loans Receivable	2,700
Proceeds from Sale of Property	64,271
Purchase of Property and Equipment	(860,728)
Purchases of Investments	(2,065,226)
Proceeds from Sales of Investments	<u>2,171,611</u>
Net Cash Used by Investing Activities	<u>(385,770)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contributions Restricted to Permanent Endowment	329,872
Payments on Annuity Liability	(638)
Advances of Long-term Debt	605,007
Principal Paid on Long-term Debt	<u>(19,203)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>915,038</u>
Increase in Cash and Cash Equivalents	97,258
CASH AND CASH EQUIVALENTS - BEGINNING	<u>336,223</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 433,481</u>

The accompanying notes to the Foundation financial statements are an integral part to this statement.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies

Reporting Entity

Black Hills State University (the University) is a public institution of higher education under the governance of South Dakota Board of Regents (the Board). The Board 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 Combined 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, the majority of 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, 2016, the University received **\$1,941,278.56** from the Foundation for both restricted and unrestricted purposes.

Basis of Presentation

The financial statements have been prepared in accordance with the generally accepted accounting principles 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*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, and Statement No 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows represent the financial activities of the University.

Basis of Accounting

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

Fund Accounting

In order to insure observance of the limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources are maintained in accordance with activities or objectives specified by donors, governmental appropriations, granting agencies, and other outside sources or regulations. Separate accounts are maintained for each fund; however in the accompanying financial statements, all fund groups have been combined and reported as a single net position total.

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.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(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 the allowance method, a reserve is established for the projected amount that will become uncollectible.

The allowance for uncollectible accounts 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 receivables associated with the Perkins Loan Program. When Perkins loans are deemed uncollectible, they are assigned to the Department of Education. The direct write-off method is used for any uncollectible accounts.

Interest Receivable

Interest Receivable consists of interest earned through the State Investment Council through June 30, 2016.

Inventory

Inventory consists 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.

Due from/to Other Component Units

Due from/to Other Component Units represents receivables or payables to other South Dakota public universities, special schools, or the Board.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(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:

Asset Type	Capitalization Threshold	Useful Life
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 a consumption of net position by the government that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

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, 2016

(1) Summary of Significant Accounting Policies (Continued)

Net Position

The University's net position are 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.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(2) Capital Assets

A summary of changes in Capital Assets follows:

	2015	Prior Period	Additions	Deletions	2016
Land	\$ 189,350.00	\$ -	\$ 45,000.00	\$ -	\$ 234,350.00
Building & Building Improvements	91,873,108.03	-	14,848,442.42	(833,866.37)	105,887,684.08
Land Improvements	4,645,527.63	-	-	-	4,645,527.63
Infrastructure	6,415,903.21	18,649.20	-	-	6,434,552.41
Equipment & Other Property					
Equipment	6,239,653.91	935,795.06	1,173,737.75	(7,760.00)	8,341,426.72
Library Books**	4,071,647.06	-	31,847.91	-	4,103,494.97
Total Assets	\$ 113,435,189.84	\$ 954,444.26	\$ 16,099,028.08	\$ (841,626.37)	\$ 129,647,035.81
Less Accumulated Depreciation:					
Building & Building Improvements	\$ 25,983,754.35	\$ 1,800,088.27	\$ 2,786,181.77	\$ (833,866.33)	\$ 29,736,158.06
Land Improvements	1,618,033.65	681,660.69	233,147.14	-	2,532,841.48
Infrastructure	3,961,109.92	11,328.63	309,864.20	-	4,282,302.75
Equipment & Other Property					
Equipment	4,273,946.80	320,771.99	613,169.38	(3,762.40)	5,204,125.77
Library Books**	3,428,603.32	428,697.73	51,760.67	-	3,909,061.72
Total Depreciation	\$ 39,265,448.04	\$ 3,242,547.31	\$ 3,994,123.16	\$ (837,628.73)	\$ 45,664,489.78
Net Capital Assets	\$ 74,169,741.80	\$ (2,288,103.05)	\$ 12,104,904.92	\$ (3,997.64)	\$ 83,982,546.03

**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:

1. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. Protected, kept unencumbered, cared for, and preserved.
3. 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, 2016

(3) Construction in Progress & Commitments

A summary of changes in Construction in Progress follows:

	2015	Additions	Deletions	2016
Utility Infrastructure	\$ 2,662,645.48	\$ 1,093,276.60	\$ -	\$ 3,755,922.08
Bank Stabilization & Erosion Control	6,702.80	352,276.89	-	358,979.69
Jonas Electrical Upgrade	-	269,269.23	-	269,269.23
Tree Project	-	79,575.34	-	79,575.34
Apartments Upgrade	-	45,502.82	-	45,502.82
Library Roof & Parapet	21,278.00	2,907.00	-	24,185.00
Jonas Science Renovations	1,394,549.00	1,079,161.34	(2,473,710.34)	-
Crow Peak Residence Hall	10,170,975.48	1,418,794.25	(11,589,769.73)	-
Young Center Roof Replacement	495,147.25	-	(495,147.25)	-
Pressbox & Concession Upgrade	-	107,563.54	(107,563.54)	-
Dining Services	-	182,251.56	(182,251.56)	-
Total Construction in Progress	\$ 14,751,298.01	\$ 4,630,578.57	\$ (14,848,442.42)	\$ 4,533,434.16

The University had outstanding commitments for the Bank Stabilization & Erosion Control project totaling **\$1,441,428.07** at June 30, 2016.

Construction projects listed above will be funded by South Dakota Building Authority bonds, HEFF, General Funds, and reserves.

(4) Compensated Absences

A summary of changes in Compensated Absences follows:

	2015	Accrued	Leave Taken	2016	Portion
Annual Leave	\$ 906,059.38	\$ 704,464.72	\$ 656,515.82	\$ 954,008.28	\$ 624,232.82
Sick Leave	1,551,670.27	277,690.46	190,973.36	1,638,387.37	228,759.36
Total Compensated Absences	\$ 2,457,729.65	\$ 982,155.18	\$ 847,489.18	\$ 2,592,395.65	\$ 852,992.18

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(5) Bonds Payable, Restricted Cash and Cash Equivalents on Deposit – State Treasurer, and Restricted Net Position

Bonds Payable, Net of Premiums at of June 30, 2016:

	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	\$ 1,555,000.00	\$ 232,933.48	\$ 1,787,933.48	\$ 150,182.00
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	9,410,000.00	428,821.28	9,838,821.28	449,058.73
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	5,980,000.00	-	5,980,000.00	360,000.00
2006 Revenue Bond; matures in 2026; semi-annual payments bearing interest at 3.92%; paid with Parking auxiliary revenues	780,000.00	-	780,000.00	65,000.00
Total Bonds Payable, Net Premium	\$ 17,725,000.00	\$ 661,754.76	\$ 18,386,754.76	\$ 1,024,240.73

The Board authorized revenue bonds to finance the Student Union expansion, residence hall renovations, 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, 2016 were **\$2,298,154**. Restricted Cash on Deposit – State Treasurer and Restricted Net Position – Expendable Debt Service was **\$373,664.56** for a portion of the interest and principal due in fiscal year 2017. Restricted Net Position – Expendable Other of **\$1,341,867.60** 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. As Crow Peak Residence Hall was capitalized in 2016, the University made the required transfers for the bond sinking fund and the initial establishment of a repair and replacement reserve.

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, 2016

(5) Bonds Payable, Restricted Cash and Cash Equivalents on Deposit – State Treasurer, and Restricted Net Position (Continued)

The changes in Bonds Payable for the year ended June 30, 2016 follows:

	2015	Proceeds	Payments	2016
2014B Bond	\$ 1,675,000.00	\$ -	\$ (120,000.00)	\$ 1,555,000.00
2014B Premium	258,115.48	-	(25,182.00)	232,933.48
2014A Bond	9,820,000.00	-	(410,000.00)	9,410,000.00
2014A Premium	447,880.01	-	(19,058.73)	428,821.28
2007 Bond	6,325,000.00	-	(345,000.00)	5,980,000.00
2006 Bond	845,000.00	-	(65,000.00)	780,000.00
	\$ 19,370,995.49	\$ -	\$ (984,240.73)	\$ 18,386,754.76

Debt service requirements follows:

	Principal	Interest	Total	Premiums
2017	\$ 980,000.00	\$ 762,841.00	\$ 1,742,841.00	\$ 44,240.73
2018	1,025,000.00	723,834.00	1,748,834.00	44,240.73
2019	1,055,000.00	683,049.00	1,738,049.00	44,240.73
2020	1,100,000.00	641,082.00	1,741,082.00	44,240.73
2021	1,145,000.00	591,137.00	1,736,137.00	44,240.73
2022 - 2026	5,575,000.00	2,170,251.00	7,745,251.00	202,317.13
2027 - 2031	3,315,000.00	1,144,158.00	4,459,158.00	95,293.65
2032 - 2036	2,055,000.00	642,787.00	2,697,787.00	95,293.65
2037 - 2039	1,475,000.00	142,263.00	1,617,263.00	47,646.68
	\$ 17,725,000.00	\$ 7,501,402.00	\$ 25,226,402.00	\$ 661,754.76

(6) Retirement Plan

The South Dakota Retirement System (SDRS) 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. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions. The system includes three classes of members: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement members. Members and their employers make matching contributions, which are defined in State statute.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(6) Retirement Plan (Continued)

SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of contributory service. Class A members and Class B judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B judicial members where the sum of age and credited service is equal to or greater than 80. Class B public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B public safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level. Class C Cement Plant Retirement members have a normal retirement age of 65 and early retirement is age 55 with the required credited service. Class C provides for disability payments for those disabled on or before March 16, 2001. All participants of the Plan on March 15, 2001, were 100% vested.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) and based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% Cost of Living Adjustment (COLA)
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - * 90.0% to 99.9% funded – 2.1% minimum and 2.8% maximum COLA
 - * 80.0% to 90.0% funded – 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% – 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the COLA.

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The University's share of contributions to SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were **\$1,219,120**, \$1,238,460 and \$1,210,869 respectively, equal to the required contributions each year.

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.

(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 www.sdrs.sd.gov.

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(8) Risk Management

The Office of Risk Management of the Bureau of Administration is the insurance, loss control, and safety resource for all state agencies within South Dakota. The responsibilities of the Office of Risk Management include protecting the State's assets; providing a safe environment for State employees and for the general public who come in contact with State employees or property as services are provided; minimizing the possible interruptions of vital public services; safeguarding exposures to financial loss; and reducing the costs and consequences of accidents, including insurance premiums, through effective safety management.

Tort liability coverage is provided to state employees under the Public Entity Pool for Liability (PEPL). State law provides that sovereign immunity is waived to the extent that coverage is provided either through the purchase of insurance or an arrangement such as the State has with PEPL. Therefore, the "Agreement" and "Memorandum of Coverage" between the State and PEPL carve out the instances where the State waves sovereign immunity and agrees to cover damages for which an employee becomes liable. Coverage under PEPL includes general liability, law enforcement liability, public official's errors and omissions liability, automotive liability, and some medical malpractice liability. The coverage limit under PEPL is \$1,000,000 per occurrence.

(9) Litigation

At June 30, 2016, the University was involved in various lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the Risk Management note above, the University has liability coverage for itself and its employees. Therefore, no material effects are anticipated to the University as a result of the potential outcome of these lawsuits.

(10) Tuition and Fees

For the year ending June 30, 2016, the University collected and remitted state support tuition and system fees to the Board as follows:

State Support Tuition & Fees	\$ 5,775,367.57
Salary Competitiveness Fee	1,534,197.79
HEFF Dollars from State Support Tuition & Fees	1,453,411.45
HEFF Dollars from Self Support Tuition	1,142,982.99
Technology Fee	68,709.59
Science Lab Facilities Bond	170,840.41
	\$10,145,509.80

The Higher Education Facilities Fund (HEFF) allocates 20% of tuition and fees from all state support universities to building improvements.

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

State Support Tuition & Fees	\$ 4,547,796.09
Salary Competitiveness Fee	1,521,491.97
HEFF (Non-Operating Revenue)	463,887.92
HEFF (Capital Contribution)	897,468.38
	\$ 7,430,644.36

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

(11) State Appropriations

The General Fund Appropriation of \$ **8,915,112.03** reported on the Statement of Revenues, Expenses, and Changes in Net Position is reflective of the amount spent during the year ending June 30, 2016. The State General Fund appropriation was \$**9,031,981.93** and \$**116,869.90** was reverted back to the State.

(12) Prior Period Adjustments

Net Position - Beginning of Year	\$ 81,428,890.73
Prior Period Adjustments	
Accumulated Depreciation - Building & Building Improvements	(1,800,088.27)
Accumulated Depreciation - Land Improvements	(681,660.69)
Infrastructure	18,649.20
Accumulated Depreciation - Infrastructure	(11,328.63)
Equipment & Other Property	935,795.06
Accumulated Depreciation - Equipment & Other Property	(749,469.73)
Due from Primary Government	(2,254.20)
Total Prior Period Adjustments	(2,290,357.26)
Net Position - Beginning of Year Restated	\$ 79,138,533.47

BLACK HILLS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2016

(13) Functional Expenses

Black Hills State University
Functional Class Matrix of Expenses
For the Year Ended June 30, 2016

	Personal Services	Travel	Contractual Services	Supplies & Materials	Grants & Subsidies	Other & Bad Debt Expense	Depreciation	Total
Instruction	\$ 13,068,454.62	\$ 193,619.45	\$ 939,023.13	\$ 394,644.70	\$ 201,517.00		\$ 1,655,699.89	\$ 16,452,958.79
Research	799,635.16	42,906.32	211,918.44	295,639.11	428,427.64		57,269.44	1,835,796.11
Public Service	570,574.66	22,923.04	175,939.51	144,087.71	57,747.48		56,720.89	1,027,993.29
Academic Support	2,949,814.54	71,354.43	502,771.50	392,521.66			244,177.22	4,160,639.35
Student Services	3,626,495.74	520,135.74	523,263.82	605,245.04	9,171.00		493,079.01	5,777,390.35
Institutional Support	3,807,271.26	114,061.11	1,175,269.46	385,235.84	618.00	266,593.97	231,644.82	5,980,694.46
O&M of Plant	2,263,334.04	50,709.86	1,145,423.39	1,793,946.79			623,540.09	5,876,954.17
Scholarships	-	-	-		2,578,067.78	43,567.95		2,621,635.73
Auxiliaries	1,681,252.17	12,762.83	2,467,209.37	1,585,415.45			631,991.79	6,378,631.61
TOTAL	\$ 28,766,832.19	\$ 1,028,472.78	\$ 7,140,818.62	\$ 5,596,736.30	\$ 3,275,548.90	\$ 310,161.92	\$ 3,994,123.15	\$ 50,112,693.86

Other & Bad Debt Expense:

Bad Debt Expense	\$ 266,593.97
Loan Cancellation Expense	46,496.59
Collection Recoveries	(2,928.64)
Total & Bad Debt Expense	\$ 310,161.92

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2015

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, 2015

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 \$60,444, and are included as a component of the investment losses 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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2015, 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 2012. 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, 2015 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	\$ 1,236,112
Receivable in One to Five Years	225,251
Receivable in More Than Five Years	<u>17,366</u>
Total Pledges Receivable	1,478,729
Less Unamortized Discounts to Net Present Value	(17,137)
Less Allowance for Uncollectible Pledges	<u>(39,032)</u>
Net Pledges Receivable	<u>\$ 1,422,560</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, 2015. 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, 2015

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, 2015, all endowment net assets were donor restricted endowment funds. The composition of and changes in endowment net assets for the year ended December 31, 2015 were as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment
Endowment Net Assets, Beginning	\$ 3,190,654	\$ 9,686,119	\$ 12,876,773
Reclassifications	(6,394)	11,644	5,250
Contributions to Endowment	39,185	1,296,316	1,335,501
Net Appreciation on Investments	(435,709)	-	(435,709)
Interest and Dividends	345,079	-	345,079
Investment Fees	(60,252)	-	(60,252)
Investment Losses Absorbed			
by Unrestricted Net Assets	14,651	-	14,651
Management Fees Charged			
to Endowment	(217,500)	-	(217,500)
Purpose Restrictions Accomplished	(369,014)	-	(369,014)
Endowment Net Assets, Ending	<u>\$ 2,500,700</u>	<u>\$ 10,994,079</u>	<u>\$ 13,494,779</u>

As of December 31, 2015, the Foundation had a \$14,651 deficiency in the amount of temporarily restricted net assets that are required to be maintained under donor agreements. This deficiency is the result of investment losses during the years ended December 31, 2008, 2011 and 2015. The total deficiency of \$144,903 will be reimbursed in future years by endowment fund earnings.

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2015

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.

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, 2015

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, 2015:

	Level I	Level II	Level III	Total
Mutual Funds				
Commodities	\$ -	\$ 228,385	\$ -	\$ 228,385
Domestic Equity	-	427,642	-	427,642
US Treasury Bond Funds	-	12,593	-	12,593
Fixed Income	-	1,923,808	-	1,923,808
Treasury Inflation Protection	-	80,462	-	80,462
International Equity	-	1,751,079	-	1,751,079
Floating Rate Funds	-	168,193	-	168,193
Large Cap	-	1,869,478	-	1,869,478
Mid Cap	-	482,866	-	482,866
Mortgage Security Bond Funds	-	12,794	-	12,794
Alternative Investment Funds	-	162,145	-	162,145
Small Cap	-	381,324	-	381,324
Real Estate	-	26,879	-	26,879
Municipal Bonds	-	1,574,217	-	1,574,217
Equity Securities				
Technology	224,636	-	-	224,636
Consumer Services	240,058	-	-	240,058
Utilities	388,645	-	-	388,645
Healthcare	166,999	-	-	166,999
Financial	270,296	-	-	270,296
Industrial Goods	165,345	-	-	165,345
Basic Materials	40,127	-	-	40,127
Consumer Goods	227,866	-	-	227,866
Energy	88,380	-	-	88,380
Other Securities	22,233	-	-	22,233
Structured Debt	-	519,871	-	519,871
Exchange Traded Funds, Medium	1,073,877	-	-	1,073,877
REITs	1,115,607	-	-	1,115,607
Corporate Bonds				
Utilities	-	19,673	-	19,673
Financial	-	181,007	-	181,007
Consumer Goods	-	132,741	-	132,741
Conglomerates	-	34,077	-	34,077
Other Bonds	-	424,735	-	424,735
Total Investments	<u>\$ 4,024,069</u>	<u>\$ 10,413,969</u>	<u>\$ -</u>	<u>\$ 14,438,038</u>
Short-term Investments				
Cash and Cash Equivalents	\$ 428,865	\$ -	\$ -	\$ 428,865
Money Market Funds	447,860	-	-	447,860
Total Short-term Investments	<u>\$ 876,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 876,725</u>
Annuity Liabilities	<u>\$ -</u>	<u>\$ 449,991</u>	<u>\$ -</u>	<u>\$ 449,991</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2015

NOTE 4 - FAIR MARKET VALUE MEASUREMENTS (CONTINUED)

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

Municipal and Corporate Bonds, Structured Debt, and Preferred Stock - 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, 2015 the balance on the loan was \$34,272. 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 \$300,000 against the cash surrender value of life insurance in order to finance the cost of construction of the Alumni Center. 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, 2015

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 consisted of the following:

Land	\$ 507,446
Buildings and Improvements	2,622,055
Equipment and Furnishings	<u>241,845</u>
	3,371,346
Less Accumulated Depreciation	<u>(242,004)</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 3,129,342</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, 2015.

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.

NOTE 10 - LONG-TERM DEBT

Long-term debt consisted of the following as of December 31, 2015:

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.	\$ 636,641
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>34,272</u>
	<u>\$ 670,913</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2015

NOTE 10 - LONG-TERM DEBT (CONTINUED)

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

For the Year Ending December 31,		
2016	\$	21,883
2017		22,948
2018		24,022
2019		12,694
2020		13,231
Thereafter		<u>576,135</u>
	\$	<u>670,913</u>

During the year ended December 31, 2015, the Foundation incurred \$23,090 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	\$	2,000,499
Fine Arts Fund		928,229
Welcome Center		1,331,532
Time Restriction on Long-term Receivables		1,422,560
Time Restriction on Life Insurance		<u>995,858</u>
Total Temporarily Restricted Net Assets	\$	<u>6,678,678</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	\$	594,335
BHSU Departmental Support		2,174,043
Management Fee Charged to Endowments		218,188
A'viands Funds Released for President's House		<u>238,613</u>
	\$	<u>3,225,179</u>

Black Hills State University Foundation
Notes to the Financial Statements
December 31, 2015

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	\$ -	\$ (11,644)	\$ 11,644
Deficit Spending Absorbed by Unrestricted Net Assets	<u>(36,550)</u>	<u>36,550</u>	<u>-</u>
Total Reclassifications	<u>\$ (36,550)</u>	<u>\$ 24,906</u>	<u>\$ 11,644</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, 2015 was from a lease agreement with the University for the University President's residence. As of December 31, 2015, the cost of assets included in property and equipment being leased to the University totaled \$1,974,284. Accumulated depreciation related to these assets was \$153,064 as of December 31, 2015.

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 \$175,179 for the year ended December 31, 2015, 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 78% of the pledges receivable balance consists 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.

SUPPLEMENTARY INFORMATION

Black Hills State University Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services				Total Programs
	Scholarships and Awards	University Support	Alumni Association	Presidential Support	
Scholarships	\$ 627,768	\$ -	\$ -	\$ -	\$ 627,768
Awards	-	94,722	1,420	-	96,142
Professional Fees	-	1,885,386	1,296	9,168	1,895,850
Payroll	-	-	-	-	-
Special Projects	-	8,261	-	-	8,261
Depreciation	-	76,303	-	-	76,303
Office Expense	-	50,734	5,529	104,784	161,047
Meals & Entertainment	5,512	17,842	15,055	3,656	42,065
Travel	-	32,816	1,948	361	35,125
Dues & Fees	-	8,911	106	-	9,017
Advertising	-	4,265	-	120	4,385
President Expenses	-	-	-	11,015	11,015
Insurance	-	2,337	-	-	2,337
Alumni Events	-	-	14,687	-	14,687
Interest Expense	-	-	-	23,090	23,090
Occupancy	-	585	-	8,010	8,595
Miscellaneous	-	5,014	271	488	5,773
Provision for Bad Debts	-	2,327	-	-	2,327
Total Expenses	<u>\$ 633,280</u>	<u>\$ 2,189,503</u>	<u>\$ 40,312</u>	<u>\$ 160,692</u>	<u>\$ 3,023,787</u>

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ -	\$ -	\$ 627,768
-	-	96,142
27,278	47,681	1,970,809
1,033	81,256	82,289
500	-	8,761
20,107	-	96,410
9,380	7,568	177,995
2,116	22,344	66,525
2,338	8,106	45,569
7,159	-	16,176
350	6,095	10,830
-	-	11,015
7,773	-	10,110
-	-	14,687
-	-	23,090
4,355	-	12,950
940	-	6,713
15,038	-	17,365
<u>\$ 98,367</u>	<u>\$ 173,050</u>	<u>\$ 3,295,204</u>