

**NDSU**

NORTH DAKOTA STATE UNIVERSITY

**Annual Financial Report**  
**June 30, 2012**

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# ***North Dakota State University***

## ***Management's Discussion and Analysis***

### ***JUNE 30, 2012***

North Dakota State University's (herein referred to as "NDSU" or the "University") discussion and analysis provides an overview of the University's financial activities for the year ending June 30, 2012. It is designed to focus on current year activities in an effort to assist readers in understanding how those activities impacted the accompanying financial statements.

The financial activity of the 11 public post-secondary campuses under the control of the North Dakota University System (herein referred to as "NDUS"), including NDSU, is combined into a single financial report audited by the North Dakota State Auditor's Office (SAO). NDSU's financial statements are not audited as a separate entity, they are audited as part of the NDUS as a whole.

The financial statements presented are partially extracted from the audited NDUS financial report. **NDSU's Annual Financial Report, alone, is considered not audited; and therefore no audit opinion letter is included in this report.**

NDSU's financial statements include the balances and activities of the following state agencies that have separate legislative state appropriations: Agricultural Experiment Station, Extension Service, Research Centers, Northern Crops Institute, Upper Great Plains Transportation Institute, and the North Dakota Forest Service.

Financial statements for the legally separate foundations that are affiliated with NDSU are presented in the Supplementary Information section of this report. The figures in this section were extracted from the foundation's audited reports; however, as with NDSU's basic financial statements and notes, the supplementary information presented in this report must be considered not audited.

## ***Background Information***

North Dakota State University is distinctive as a student-focused, land-grant, research university, ranked by the Carnegie Commission on Higher Education among the top 108 public and private universities in the country. NDSU is in the elite category of "Research Universities/Very High Research Activity.", and is one of two flagship universities in North Dakota, with several programs ranked in the Top 100 by the National Science Foundation. NDSU is fully accredited as an institution by the Higher Learning Commission of the North Central Association of Colleges and Secondary Schools.

The main campus is located in Fargo, N.D., with Extension Service and Experiment Station Research Centers located all across the state.

# *Management's Discussion and Analysis*

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## **Mission**

With energy and momentum, North Dakota State University addresses the needs and aspirations of people in a changing world by building on our land-grant foundation.

## **Vision**

We envision a vibrant university that will be globally identified as a contemporary metropolitan land-grant institution.

## ***Financial Highlights***

NDSU's overall financial standing continues to be sound with total assets of \$462 million and total liabilities of \$177 million, resulting in a net assets total of \$285 million (an increase of \$25 million over the previous fiscal year). The University has done well in managing its financial resources and is better off as a result of the current year's activities. Total operating revenues increased 2.5 percent primarily as a result of increases in tuition and auxiliary enterprise revenues. Total operating expenses increased 1.4 percent.

## **Using this Annual Report**

This annual report consists of a series of financial statements. The State of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows provide information on the University as a whole and present a long-term view of the University's finances. Refer to Note 1 in the accompanying financial statements for activities included in the University's basic financial statements.

The statements assist in answering the question "Is the University as a whole financially better off or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information in a way that helps answer this question. The Statement of Cash Flows summarizes transactions affecting cash during the fiscal year. It also provides information about the ability of the University to generate future cash flows necessary to meet its obligations and to evaluate its potential for additional financing.

Other non-financial factors, such as the condition of the campuses infrastructure, changes in legislative funding and changes in student enrollments, need to be considered in order to assess the overall health of the System.

## Management's Discussion and Analysis

### Statement of Net Assets

The following table shows a condensed Statement of Net Assets at June 30, 2012 and 2011:

	2012	2011	Dollar Change	Percent Change
<b>ASSETS</b>				
Current assets	\$ 74,740,841	\$ 67,490,980	\$ 7,249,861	11%
Other non-current assets	71,982,994	77,367,854	(5,384,860)	-7%
Capital assets, net	315,461,631	299,992,500	15,469,131	5%
Total assets	<u>\$ 462,185,466</u>	<u>\$ 444,851,334</u>	<u>\$ 17,334,132</u>	<u>4%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 34,324,812	\$ 33,690,125	\$ 634,687	2%
Noncurrent liabilities	142,853,385	150,904,792	(8,051,407)	-5%
Total liabilities	<u>\$ 177,178,197</u>	<u>\$ 184,597,917</u>	<u>\$ (7,419,720)</u>	<u>-4%</u>
<b>NET ASSETS</b>				
Invested in capital assets, net	\$ 193,282,993	\$ 177,148,436	\$ 16,134,557	9%
Restricted	22,876,047	24,481,028	(1,604,981)	-7%
Unrestricted	68,848,229	58,626,953	10,221,276	17%
Total net assets	<u>\$ 285,007,269</u>	<u>\$ 260,256,417</u>	<u>\$ 24,750,852</u>	<u>10%</u>

During fiscal 2012, assets were transferred from the non-current to capital assets, because of construction projects completed and capitalized. Current assets increased due to the overall improvement in the University's financial performance.

Noncurrent liabilities decreased during fiscal 2012 due to the refinancing and early retirement of bonds and leases payable.

Invested in capital assets, net, increased due to the capitalization of construction projects, as well as the reduction of long-term debt. Restricted net assets were reduced due to the release of debt service restrictions on bond issues closed out during the year. Unrestricted net assets increased due to the overall improvement in financial performance of the University. Increased carryover balances are recognized in Agricultural Experiment Station, Research Centers, ND Forest Service, as well as University appropriation funds.

## Management's Discussion and Analysis

### Statement of Revenues, Expenses, and Changes in Net Assets

The following table shows a condensed version of Statement of Revenues, Expenses and Changes in Net Assets, with operating and non-operating revenues and expenses combined, as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues</b>				
Student tuition and fees	\$ 96,268,445	\$ 88,520,912	\$ 7,747,533	9%
Grants, contracts, (operating and nonoperating)	99,301,644	100,208,209	(906,565)	-1%
State appropriations (operating and nonoperating)	104,336,108	119,214,794	(14,878,686)	-12%
Sales and services of educational departments	21,448,147	18,704,427	2,743,720	15%
Auxiliary enterprises	45,071,208	43,120,108	1,951,100	5%
Gifts	9,772,784	8,942,480	830,304	9%
Other, (operating and nonoperating)	2,798,357	4,283,482	(1,485,125)	-35%
<b>Total revenues</b>	<b>\$ 378,996,693</b>	<b>\$ 382,994,412</b>	<b>\$ (3,997,719)</b>	<b>-1%</b>
<b>Expenses</b>				
Salaries and wages	\$ 233,120,287	\$ 229,476,898	\$ 3,643,389	2%
Operating expenses	89,076,303	86,028,176	3,048,127	4%
Depreciation expense	18,901,210	18,847,583	53,627	0%
Scholarships and fellowships	5,370,497	7,185,029	(1,814,532)	-25%
Other, (operating and nonoperating)	7,777,543	9,076,610	(1,299,067)	-14%
<b>Total expenses</b>	<b>\$ 354,245,840</b>	<b>\$ 350,614,296</b>	<b>\$ 3,631,544</b>	<b>1%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 24,750,853</b>	<b>\$ 32,380,116</b>	<b>\$ (7,629,263)</b>	<b>-24%</b>
<b>Net Assets, Beginning of Year</b>	<b>\$ 260,256,416</b>	<b>\$ 227,876,301</b>	<b>\$ 32,380,115</b>	<b>14%</b>
<b>Net Assets, End of Year</b>	<b>\$ 285,007,269</b>	<b>\$ 260,256,416</b>	<b>\$ 24,750,853</b>	<b>10%</b>

While overall revenue and expenses fluctuated about 1% from 2011 to 2012, some components of the totals showed noteworthy variances.

On the revenues side: Student tuition and fees increased 9% due to an 8.8% increase in tuition which took effect fall semester 2011. Overall state appropriations decreased 12% due to a reduction in capital construction project costs in fiscal 2012. Revenues from sales and services of educational departments increased 15% primarily due to increased commodity prices in the Agricultural Experiment Station and Research Centers. Other revenues decreased primarily due to the one-time recognition of \$1.2 million revenue for the Northern Tier Network project in fiscal 2011.

On the expenses side: decreases in scholarships and fellowships were primarily due to reductions in federal financial aid (such as: Pell grants). Other expenses decreased because fiscal 2011 included a \$2 million special assessment project (12<sup>th</sup> Ave road work).

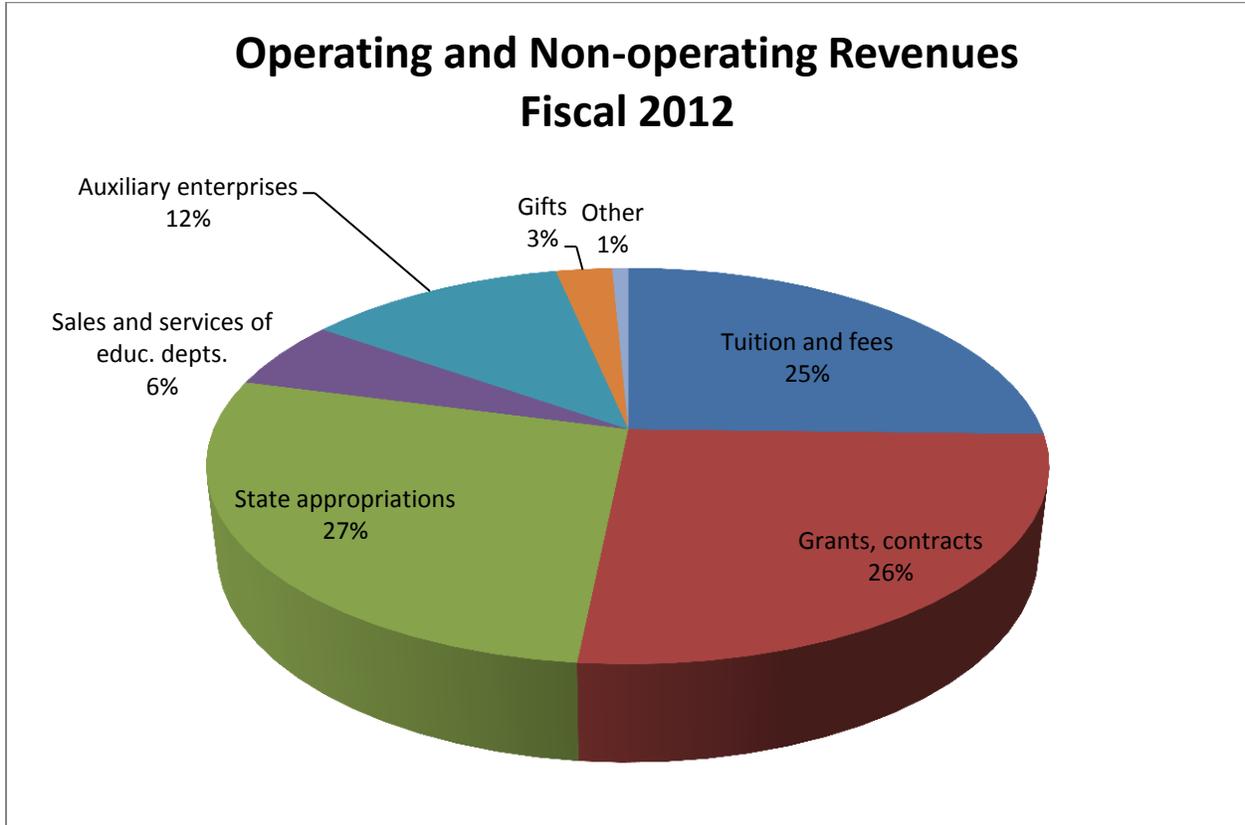
Increases to net assets were down 24% in fiscal 2012 compared to fiscal 2011; however, both year's increases were healthy, positive increases. Fiscal year's 2012 increase (\$24,750,853) represents a 9.5% increase to net assets. Fiscal year's 2011 increase represents a 14.2% increase to net assets.

## Management's Discussion and Analysis

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### Graphs

The following graph depicts sources of operating and non-operating revenues for fiscal year 2012:

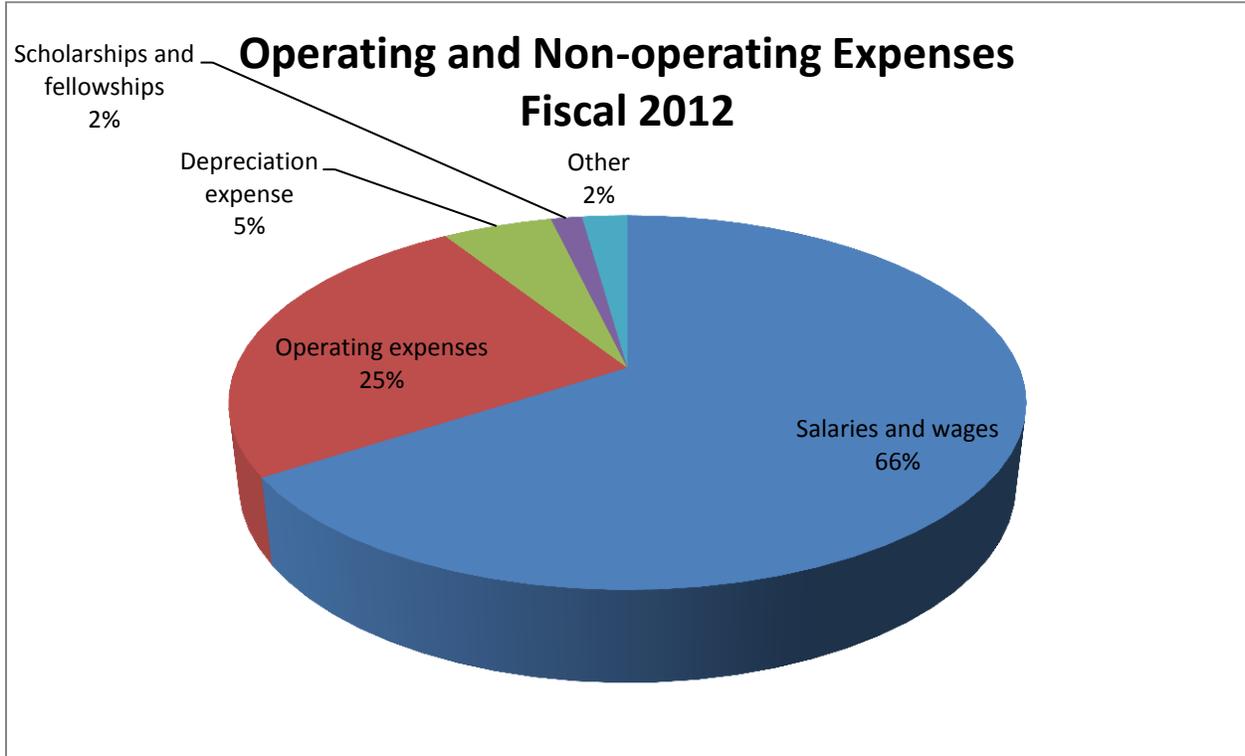


The activities of all NDSU entities are combined in this graph, including the Agriculture Experiment Station, and other similar separately appropriated agencies.

## Management's Discussion and Analysis

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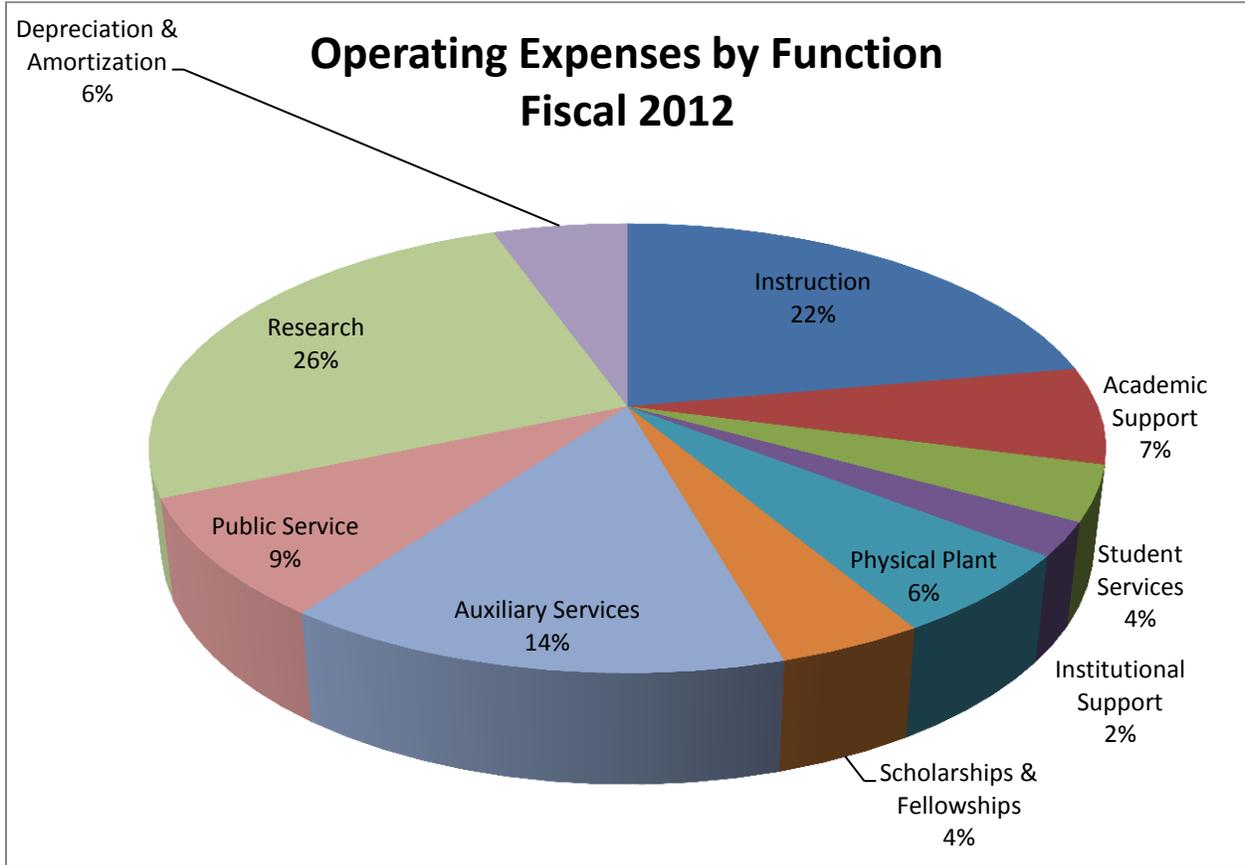
The following graph depicts objects of operating and non-operating expenses for fiscal year 2012:



The activities of all NDSU entities are combined in this graph, including the Agriculture Experiment Station, and other similar separately appropriated agencies.

## Management's Discussion and Analysis

The following graph depicts operating expenses only, by institutional function for fiscal year 2012:



The activities of all NDSU entities are combined in this graph, including the Agriculture Experiment Station, and other similar separately appropriated agencies.

## Management's Discussion and Analysis

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### Long-term Debt

During fiscal year 2012, three long-term debt obligations (bonds and leases) were either refinanced or retired early on the scheduled call date. This debt restructuring contributed to the University improved overall financial performance for the year. A summary is as follows:

<b>Bond Issue</b>	<b>PV Savings</b>	<b>% of PV Savings of Refunded Bonds</b>
City of Fargo, ND University Facilities Revenue Refunding Bonds, Series 2012 (Barry/Klai Hall)	\$1,666,712.94	13.52%
NDSU Housing & Auxiliary Facilities Revenue Refunding Bonds, Series 2012A (LLC)	\$ 688,240.68	11.11%
Early retirement on call date of NDSU Facilities Revenue Bonds, Series 2002 (Minard)	<u>\$ 948,980.64</u>	39.87%
Total	<u><u>\$3,303,934.26</u></u>	

### Financial Ratios

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current Ratio (current assets to current liabilities)	2.18	2.00	2.92
Primary Ratio (expendable net assets to operating expense)	0.26	0.24	0.23
Net Income Margin (increase in net assets to total revenue)	6.53%	8.45%	5.18%
Viability Ratio (expendable net assets to long-term debt)	0.61	0.53	0.46

#### Current Ratio

The current ratio measures whether or not the University has enough readily available resources to pay its short-term bills and liabilities. A ratio of 2 or greater is considered healthy. By comparison, the ND University System's current ratio was 2.5 for both fiscal years 2012 and 2011.

#### Primary Reserve Ratio

The primary reserve ratio measures the ability of the University to continue operating at current levels, within current restrictions, without future revenues. A ratio of 1.0 denotes that an institution would have the ability to cover its expenses for one year with any revenues. The University's primary reserve ratio at June 30, 2012, is 0.26, which indicates that in an emergency situation, the University could continue its current operations for approximately 13.5 weeks. By comparison, the ND University System's primary reserve ratio was 0.29 and 0.28 for fiscal years 2012 and 2011, respectively.

# Management's Discussion and Analysis

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## Net Income Margin

The net income margin indicates whether total activities resulted in income or a deficit. A positive margin indicates that the institution experienced income for one year. NDSU's fiscal 2012 margin is 6.53%. By comparison, the ND University System's net income margin is 5.5% and 6.9% for fiscal year 2012 and 2011, respectively.

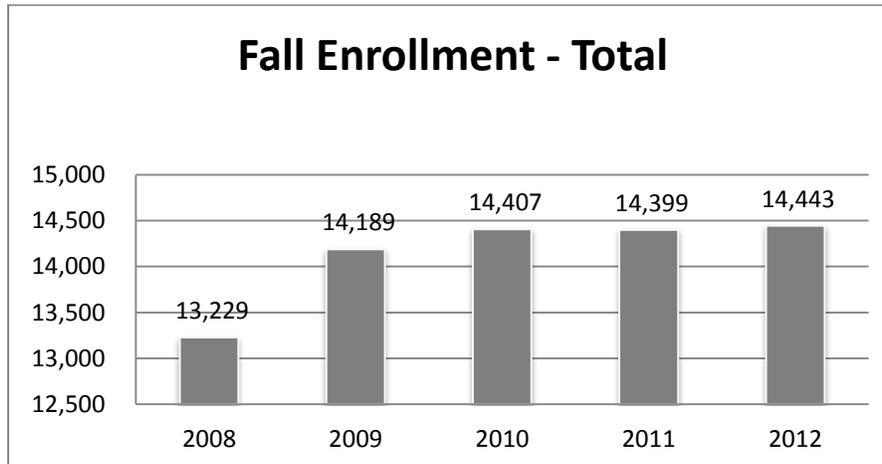
## Viability Ratio

The viability ratio is a measure of financial health; the availability of expendable net assets to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable net assets are the balances in the total net assets, excluding investment in capital assets and non-expendable scholarships and fellowships. NDSU's viability ratio has been improving and is now at 0.61. By comparison, the ND University System's net income margin is 0.9 and 0.8 for fiscal year 2012 and 2011, respectively.

## Other Highlights

### Student Enrollment

NDSU's annual unduplicated degree credit headcount for fall 2012 was 14,443 students, which represents 30% of the student enrollment for the entire ND University system. NDSU's degree credit headcount for the last five fall terms is as follows:

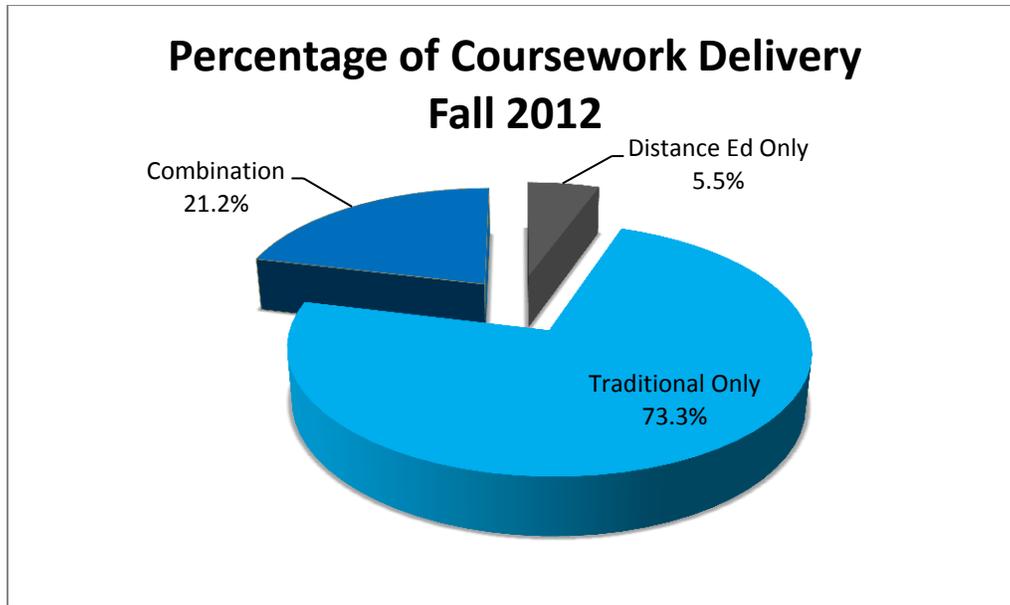


## Management's Discussion and Analysis

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### Headcount by Delivery Method of Coursework

The chart below represents the percentage of NDSU students enrolled in distance only learning (5.5%), a combination of distance and traditional learning (21.2%) and traditional only learning (73.3%). Traditional classroom environment is where the instructor and students are physically located in the same place and incorporates the use of multiple supportive technologies, as appropriate. Distance learning includes other than face-to-face on campus instruction.



The ND University System average for distance only courses is 23.8%.

### **Financial Contact**

The University's financial statements are designed to present users with a general overview of the University's finances and to demonstrate accountability. If you have questions about the report or need additional financial information, contact the NDSU Accounting Office, Gary Wawers, Controller at [gary.wawers@ndsu.edu](mailto:gary.wawers@ndsu.edu).

**North Dakota State University**  
**Statement of Net Assets**  
For Years Ended June 30, 2012 & 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 22,248,069	\$ 19,104,059
Short-term investments	8,304,750	2,453,025
Accounts receivable, net	5,505,059	4,676,499
Due from component units	597,706	2,217,412
Due from State General Fund	17,049,913	12,544,787
Grants & contracts receivable, net	17,041,130	22,791,161
Inventories	2,066,337	1,972,710
Notes receivable, net	1,470,460	1,458,622
Other assets	457,417	272,705
<b>Total Current Assets</b>	<b>\$ 74,740,841</b>	<b>\$ 67,490,980</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 6,597,177	\$ 11,571,538
Restricted investments	6,053,393	10,103,695
Endowment investments	370,698	367,944
Notes receivable, net	5,287,044	5,248,755
Other long-term investments	49,881,259	47,260,035
Unamortized bond discount and cost of issuance	2,573,123	2,815,887
Due From Component Units	1,220,300	
Capital assets, net	315,461,631	299,992,500
<b>Total Noncurrent Assets</b>	<b>\$ 387,444,625</b>	<b>\$ 377,360,354</b>
<b>Total Assets</b>	<b>\$ 462,185,466</b>	<b>\$ 444,851,334</b>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 9,346,571	\$ 12,888,488
Payable to component units		
Accrued payroll	9,869,336	9,576,766
Deferred revenue	7,966,920	4,336,655
Deposits	1,188,830	1,044,445
Long-term liabilities—current portion:		
Payable to component units	2,283,681	1,879,915
Payable to others	3,669,474	3,963,856
<b>Total Current Liabilities</b>	<b>\$ 34,324,812</b>	<b>\$ 33,690,125</b>
<b>Noncurrent Liabilities</b>		
Payable to others	25,716	48,915
Long-term liabilities:		
Payable to component units	43,609,903	44,489,310
Payable to others	99,217,766	106,366,569
<b>Total Noncurrent Liabilities</b>	<b>\$ 142,853,385</b>	<b>\$ 150,904,792</b>
<b>Total Liabilities</b>	<b>\$ 177,178,197</b>	<b>\$ 184,597,917</b>
 <b>NET ASSETS</b>		
<b>Invested in Capital Assets, net of related debt</b>	<b>\$ 193,282,993</b>	<b>\$ 177,148,436</b>
<b>Restricted for:</b>		
Nonexpendable:		
Scholarships and fellow ships	372,771	370,017
Expendable:		
Scholarships and fellow ships	123,053	200,622
Research	8,549,270	9,448,019
Instructional department uses	1,723,898	1,092,274
Loans	7,057,463	7,101,729
Capital projects	27,901	323,341
Debt service	5,021,691	5,945,026
<b>Unrestricted</b>	<b>68,848,229</b>	<b>58,626,953</b>
<b>Total Net Assets</b>	<b>\$ 285,007,269</b>	<b>\$ 260,256,417</b>

**North Dakota State University**  
**Statement of Revenues, Expenses, & Other Changes in Net Assets**  
**For Years Ended June 30, 2012 & 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
<b>Operating Revenues:</b>		
Student tuition and fees	\$ 96,268,445	\$ 88,520,912
Federal Grants and Contracts	53,578,855	62,875,204
State Grants and Contracts	9,195,960	6,365,517
Private Grants & Contracts	9,372,488	9,629,053
Sales and services of educational departments	21,448,147	18,704,427
Auxiliary enterprises	45,071,208	43,120,108
Other Operating Revenue	761,115	697,822
<b>Total operating revenues</b>	<b>\$ 235,696,218</b>	<b>\$ 229,913,043</b>
 <b>EXPENSES</b>		
<b>Operating expenses:</b>		
Salaries and wages	\$ 233,120,287	\$ 229,476,898
Operating expenses	74,437,588	70,891,189
Data Processing	4,102,430	4,733,873
Depreciation Expense	18,901,210	18,847,583
Scholarships and fellow ships	5,370,497	7,185,029
Cost of Sales and services	10,536,285	10,403,114
<b>Total operating expenses</b>	<b>\$ 346,468,297</b>	<b>\$ 341,537,686</b>
<b>Operating income (loss)</b>	<b>\$ (110,772,079)</b>	<b>\$ (111,624,643)</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 91,679,136	\$ 97,500,691
Federal Appropriations	7,325,897	5,646,298
Federal grants and contracts	11,742,071	13,572,764
Gifts	9,772,784	8,942,480
Investment income	1,753,531	3,312,224
Interest on capital asset - related debt	(6,776,674)	(6,650,373)
Gain/(Loss) on capital assets	(685,406)	(122,598)
Insurance Proceeds	175,861	71,635
Tax Revenues	107,850	201,801
Other nonoperating revenues over (under) expenses	(30,971)	(2,020,148)
<b>Net nonoperating revenues</b>	<b>\$ 115,064,079</b>	<b>\$ 120,454,774</b>
<b>Income (loss) before capital grants, gifts and transfers</b>	<b>\$ 4,292,000</b>	<b>\$ 8,830,131</b>
State appropriations - capital assets	\$ 12,656,972	\$ 21,714,103
Transfer from Building Authority	(284,492)	(283,491)
Capital grants and gifts	8,086,373	2,119,373
<b>Total other revenues (expenses)</b>	<b>\$ 20,458,853</b>	<b>\$ 23,549,985</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 24,750,853</b>	<b>\$ 32,380,116</b>
 <b>NET ASSETS</b>		
<b>Net assets-beginning of year</b>	<b>\$ 260,256,416</b>	<b>\$ 227,876,301</b>
<b>Net assets - end of year</b>	<b>\$ 285,007,269</b>	<b>\$ 260,256,416</b>

**North Dakota State University**  
**Statement of Cash Flows**  
**For Years Ended June 30, 2012 & 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 93,949,978	\$ 89,185,735
Grants and Contracts	78,773,698	77,070,076
Payments to suppliers	(88,669,345)	(86,393,180)
Payments to employees	(234,143,926)	(228,667,333)
Payments for scholarships and fellow ships	(5,370,497)	(7,185,029)
Loans issued to students	(1,212,827)	(1,206,838)
Collection of loans to students	1,001,348	1,047,495
Auxiliary enterprise charges	45,146,252	43,044,818
Sales and services of educational departments	23,873,328	18,848,149
Cash received (paid) on deposits	47,521	(2,826)
Other receipts (payments)	522,234	764,920
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ (86,082,236)</u></b>	<b><u>\$ (93,494,013)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 84,505,721	\$ 96,127,555
Federal appropriations	6,810,055	5,342,580
Grants and gifts received for other than capital purposes	21,514,854	22,515,244
Direct Lending Receipts	56,457,820	57,735,676
Direct Lending Disbursements	(56,314,792)	(56,575,077)
Agency fund cash increase (decrease)	397,835	(1,365,112)
Tax revenues	107,850	201,801
<b>Net cash provided/(used) by financing activities</b>	<b><u>\$ 113,479,343</u></b>	<b><u>\$ 123,982,667</u></b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	\$ 5,730,000	\$ 7,266,959
Transfers (to)/from Building Authority	(284,492)	(283,491)
Capital appropriations	15,325,261	19,037,447
Capital grants and gifts received	10,151,857	1,693,587
Proceeds from sale of capital assets	10,700	10,000
Purchases of capital assets	(37,267,011)	(37,661,160)
Insurance proceeds	175,861	71,635
Principal paid on capital debt and lease	(7,632,007)	(5,240,560)
Deposits with capital debt and lease	(6,195,000)	-
Interest paid on capital debt and lease	(6,520,987)	(6,369,806)
<b>Net cash provided/(used) by capital and related financing activities</b>	<b><u>\$ (26,505,818)</u></b>	<b><u>\$ (21,475,389)</u></b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 10,480,795	\$ 8,945,986
Interest on Investments	1,690,760	2,870,813
Purchases of investments	(14,893,196)	(745,000)
<b>Net cash provided/(used) by investing activities</b>	<b><u>\$ (2,721,641)</u></b>	<b><u>\$ 11,071,799</u></b>
<b>Net increase (decrease) in cash</b>	<b><u>\$ (1,830,352)</u></b>	<b><u>\$ 20,085,066</u></b>
<b>Cash - Beginning of year</b>	<b><u>\$ 30,675,598</u></b>	<b><u>\$ 10,590,532</u></b>
<b>Cash - End of year</b>	<b><u>\$ 28,845,246</u></b>	<b><u>\$ 30,675,598</u></b>

## Statement of Cash Flows - Continued

### RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	<b>2012</b>	<b>2011</b>
<b>Operating Income (loss)</b>	<b>\$ (110,772,079)</b>	<b>\$ (111,624,643)</b>
Adjustments:		
Depreciation	18,901,210	18,847,583
Other nonoperating revenues (expenses)	(54,170)	607
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	1,338,315	(9,063)
Intergovernmental receivables	5,946,097	(1,799,698)
Inventories	(93,627)	381,034
Notes receivable	(50,128)	(30,626)
Other assets	(184,712)	66,491
Accounts payable and accrued liabilities adjusted for interest payable	(1,091,384)	(783,587)
Accrued payroll	330,603	237,022
Compensated absences	(1,354,243)	572,543
Deferred revenue	954,360	651,151
Deposits	47,521	(2,827)
<b>Net cash provided (used) by operating activities</b>	<b>\$ (86,082,237)</b>	<b>\$ (93,494,013)</b>

### SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	\$ 340,516	\$ 657,254
Expenses paid by capital lease	-	2,024,706
Gifts of capital assets	39,000	425,786
Net Increase (Decrease) in value of investments	13,000	441,411
<b>Total non cash transactions</b>	<b>\$ 392,516</b>	<b>\$ 3,549,157</b>

# ***Notes to Financial Statements***

***JUNE 30, 2012***

## ***Note 1 – Summary of Significant Accounting Policies***

The significant accounting policies, as summarized below, and the financial statements for the North Dakota State University are in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) which is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

### **REPORTING ENTITY**

The North Dakota State Board of Higher Education (Board) is the governing body for North Dakota's eleven publicly supported colleges and universities. North Dakota State University, including the Agricultural Research Centers, Agronomy Seed Farm, North Dakota Cooperative Extension Service, Northern Crops Institute, State Forest Service, and the Upper Great Plains Transportation Institute, is included in reporting entity of the North Dakota University System. The Board was established in 1939 when the voters of North Dakota approved an initiated measure to add Article VIII to the State Constitution. The Board consists of eight voting members. The Governor, with the advice and consent of the Senate, appoints seven of the eight voting members. The eighth member is a full-time resident student appointed by the Governor. A ninth member is a faculty member (non-voting) selected by the statewide Council of College Faculties. The Board is an entity of the executive branch of the government of the State of North Dakota. The colleges and universities governed by the Board are collectively known and referred to as the North Dakota University System hereafter referred to as the University System. The Board appoints a Commissioner of Higher Education (Chancellor) to serve as the chief executive officer of the Board and of the University System. The Chancellor and the Chancellor's staff must have their principal office in the State Capitol per the North Dakota Constitution. This office is referred to as the University System Office. The North Dakota Legislature appropriates funds it deems necessary and as required by law for those agencies and institutions authorized to exist by the constitution and statutes. Separate general ledgers are maintained for the NDUS office and each institution on the Oracle/PeopleSoft Finance Systems.

North Dakota State University is included in the reporting entity of the NDUS. The NDUS is an entity of the executive branch of government of the State of north Dakota, and is thus a component unit of the State of North Dakota. The financial statements presented here are also included in the comprehensive annual financial report of the State of North Dakota as part of the University System Consolidated Statements.

The University was created by the North Dakota Constitution and/or North Dakota Century Code (NDCC). As stated above these entities are under the control and administration of the State Board of Higher Education. Each entity receives a separate appropriation from the North Dakota Legislature as provided by North Dakota Constitutional Article VIII, S 6(6)(e) and state statute.

## *Notes to Financial Statements*

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### **Component Units**

The process of evaluating potential component units involves the application of criteria set forth in GASB Statement No. 14, The Financial Reporting Entity. In accordance with GASB Statement No. 14, a financial reporting entity consists of the primary institution, organizations for which the primary institution is financially accountable and other organizations for which the nature and significance of their relationship with the primary institution are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the criteria of financial accountability. The primary institution is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary institution. The GASB issued Statement No. 39, Determining Whether Certain Organizations Are Component Units, modifies and clarifies existing criteria of determining whether an organization should be reported as a component unit and how that component unit should be reported in the financial statements. The nature and significance of the organization's relationship and the extent of financial integration with the primary institution are now considered when determining potential component units.

As required by generally accepted accounting principles, the accompanying financial statements present the University and its component units. The component units are included in the University reporting entity because of the significance of their operational or financial relationships with the University.

The component units' financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain amounts reported on the University financial statements (receivables from and payables to component units) are not reflected on the component units' financial statements. Certain other amounts have been reclassified for consistent presentation.

### **Blended Component Units**

A component unit whose governing body is substantively the same as the governing body of the primary institution, a financial benefit/burden relationship exists and the entity provides services entirely or almost entirely to the primary institution or otherwise exclusively or almost exclusively benefits the primary institution even though it does not provide services directly to it, is included in the primary institutions financial statements using the blending method.

North Dakota State University has no blended Component Units.

### **Discretely Presented Component Units**

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to the University, exclusion would render the financial statements incomplete or misleading. Although the institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon, which the entities hold and invest is restricted to the activities of the institution or its constituents by the donors. Therefore, these entities are discretely presented in the financial statements using Financial Accounting Standards Board (FASB) standards, including Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation

## Notes to Financial Statements

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features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the financial report for these differences. Component units that are significant relative to the other component units and to the institution are considered "major" component units and are displayed in separate columns in the component unit section of the financial statements and are included in Note 15 under Major Component Units. In this financial report, the major component units are included as supplementary information. Component units that are not significant relative to the other component units and to the institution are considered non-major component units and are displayed in a separate column in the component unit section of the financial statements. Note disclosures are not provided for "non-major" component units.

### **Major Component Units**

**North Dakota State University Development Foundation** is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. Complete financial statements for North Dakota State University Development Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102, or PO Box 5144, Fargo, ND 58105.

**NDSU Research & Technology Park, Inc.**, is a nonprofit organization established in 1999 to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff and students and the citizens of North Dakota. The majority of the Park's board of directors (7 of 10) works in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill the remaining three positions. The President of NDSU serves as president of the board of directors and has control over final building plans for any new building at the Park. Complete financial statements for NDSU Research & Technology Park, Inc. may be obtained at the entity's administrative office at 1854 NDSU Research Circle North, Fargo, ND 58104.

### **Non-major Component Units**

**North Dakota 4-H Foundation** is a legally separate, non-profit 501(c)(3) organization committed to supporting 4-H programs with private funds for furthering leadership development, education, research and scholarships and creating opportunities for the youth of North Dakota. The foundation is managed by board of directors comprised of 15 voting members, of which 2 are employees of NDSU. Complete financial statements for the North Dakota 4-H Foundation may be obtained at the entity's administrative office at FLC 219 Dept 7280, PO Box 6050, Fargo ND 58108-6050.

**North Dakota State University Research Foundation** is a legally separate, non-profit 501(c)(3) organization created to provide support to NDSU in its mission by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The foundation is managed by an 11-member board of directors, comprised of five NDSU

## *Notes to Financial Statements*

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employees and six individuals who are not employed by NDSU. Complete financial statements for the Research Foundation may be obtained at the entity's administrative office at 1735 NDSU Research Park Drive, Fargo, ND 58108-6050.

**North Dakota State University Team Makers Club** was established in 1950 by a group of local business leaders who recognized the need for a community-based support group to benefit NDSU Bison Athletics. Team Makers is a legally separate, non-profit 501(c)(3) organization to provide financial support, promotion and spirit for NDSU student-athletes and the NDSU Athletics Department in order to achieve excellence. The foundation is managed by board of directors comprised of 11 voting members, of which one is an employee of NDSU. Complete financial statements for the NDSU Team Makers may be obtained at the entity's administrative office at NDSU Dept 1200, PO Box 6050, Fargo ND 58108-6050.

### ***JOINT VENTURES***

#### **Tri-College University**

Tri-College University (TCU) is a legally separate organization that is organized exclusively for educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. TCU's purpose is to assist in the establishment and maintenance of coordinated programs between Concordia College, Minnesota State University Moorhead and NDSU, as a means of maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the three universities. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. An eight-member board of directors, including the presidents of the three universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of Concordia College, Minnesota State University Moorhead and NDSU. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2012, Tri-College University had net assets of approximately \$532,229 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at North Dakota State University, Renaissance Hall, 650 NP Avenue 100, Fargo, ND 58102.

#### **INSIGNIFICANT COMPONENT UNITS**

The following organizations are component units of North Dakota State University but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than \$1 million dollars each in total assets and less than \$750,000 each in total revenues. Separate boards of directors control these entities. In addition, the college or university does not exercise financial or administrative control over these entities and/or the entities' relationship with the primary institutions are not significant enough to warrant inclusion in the reporting entity's financial statements. The related organizations at June 30, 2012 were:

NDSU: Alliance for Arts & Humanities  
221 Minard Hall, Albrecht Blvd  
PO Box 6050 Center  
Fargo, ND 58108-6050

RSVP Enterprise

# Notes to Financial Statements

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Dept. 2020  
Box 6050  
Fargo, ND 58108-6050

## **BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with 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, and Statement No. 35, Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities, issued in June and November, 1999, as amended by GASB Statement Nos. 36, 37 and 38. The System follows the “business-type activities” (BTA) reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the System’s activities.

## **BASIS OF ACCOUNTING**

The financial statements of North Dakota State University have been prepared using the economic resources measurement focus and the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

North Dakota State University follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. The University follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

## **UNRESTRICTED NET ASSETS**

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

## **RESTRICTED ASSETS**

The University, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Also, included are unspent bond proceeds that will be expended for construction of capital assets.

## **REVENUE AND EXPENSE RECOGNITION**

The University presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the University System.

Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for

## *Notes to Financial Statements*

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student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities.

### **BUDGETARY PROCESS**

The State of North Dakota operates through a biennial appropriation. Legislation requires the Board to present a single unified budget request covering the needs of all the institutions under its control to the Governor through the Director of the Office of Management and Budget. The Governor is required by legislation to present his budget to the General Assembly at the beginning of each session. The General Assembly enacts the budget of the various institutions through the passage of specific appropriation acts. Before signing the appropriation acts, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the next two years.

The Board allocates contingency and capital emergency funding within guidelines provided by the General Assembly. Any funds received by the Board and entities of the University System pursuant to federal acts, private grants, and other sources not deposited in the operating funds in the state treasury are appropriated for the biennial period. The Board has the authority to transfer funds between line items by notifying the Office of Management and Budget in writing, with the exception that the Board may not approve transfers from any capital assets line item.

The North Dakota Constitution prohibits any transfers between institutions, even by the legislature. Institutions within the University System do not use encumbrance accounting. The legal level of budgetary control is at the institutional line item level, with administrative controls established at lower levels of detail in certain instances.

Board policy requires each college or university to submit a biennial budget for Board approval and annual budgets to be approved by the Chancellor. These budgets are prepared on an accrual basis and include activity relative to current funds and unexpended plant funds. These annual budgets are prepared within the framework of the legislative-approved appropriations and become each institution's financial plan for the coming year. The Board allows each institution's discretion in transferring funds between departments.

### **CASH AND CASH EQUIVALENTS**

This classification includes cash on-hand, cash in-bank, regular and money market savings accounts, and certificates of deposit and time saving certificates (original maturity of 3 months or less). For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowment, unspent bond proceeds and cash restricted by bond covenants are included in non-current restricted cash.

### **INVESTMENTS**

Investments consist of certificates of deposit (maturity greater than three months), U.S. Treasuries, bonds, stocks and other securities held by trust departments or broker dealers. Investments are reported at fair value for year-end financial reporting. Fair value is the amount

## Notes to Financial Statements

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at which an investment could be exchanged between two willing parties, which for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income. Investments are classified as Investments, if the maturity date is more than three months to one year, or as Other Long-term Investments, if the maturity date is more than one-year from the date of the financial statements. Investments restricted by bond covenants or invested from bond proceeds are classified as Restricted Investments. Investments held by endowment funds are classified as Endowment Investments.

### RECEIVABLES

Accounts receivables include tuition, fees, food service, room and board charges and apartment rent; accrued interest on investments. Grants and contracts receivables include federal and private grants and contracts revenue and state grants and other income due from other state agencies. Loan fund notes receivable represents amounts due from students for Perkins and other federal loans, and short-term institutional loans. Net receivables are shown on the basic financial statements. The allowances for doubtful accounts/notes are detailed in *Note 3*.

### INVENTORIES

Inventories held for resale in auxiliaries (including food, books and other merchandise) and unrestricted physical plant supplies are generally stated at the lower of cost (generally determined on the first-in, first-out, or moving weighted average method) or fair market value.

### CAPITAL AND INTANGIBLE ASSETS

Land, buildings, equipment, and other property are stated at historical cost, with the exception of property acquired prior to July 1, 1964. Professional consultants for the purposes of insurance and financial record keeping evaluated these assets. Library books and periodicals are stated at an estimated inventory value as of June 30, 1974, with subsequent additions at cost and deletions at an average cost.

Capital assets, including purchased software with a unit cost of \$5,000 or greater and all library books, are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is not allocated to the functional categories. Intangible assets, excluding purchased software, with a unit cost of \$25,000 or more are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Internally developed intangible assets with a unit cost of \$50,000 or more are recorded at cost and are amortized.

The composite method is used for library book depreciation. All books purchased during a year are consolidated together and depreciated as a group of assets rather than individually. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for the construction or remodeling costs. Certain reserves have been established by bond indenture for the repayment of revenue bond indebtedness. Such reserves are recorded in the appropriate restricted assets category (cash/investments) and as "net assets restricted for debt service" on the Statement of Net Assets.

Depreciation and intangible amortization is calculated using the straight-line method over the following estimated useful lives:

Land Improvements 10 – 35 years

## *Notes to Financial Statements*

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Infrastructure 20 – 60 years  
Buildings 10 – 50 years  
Equipment 3 – 20 years  
Internally developed software 2 – 10 years  
Purchased software 3 – 5 years  
Other Intangibles 3 – 20 years  
Library Books 10 years

### **DEPOSITS**

Money received in advance for subsequent year's residence hall, apartment reservations and flight training costs and funds held by an institution in a fiduciary capacity are classified as deposits.

### **COMPENSATED ABSENCES**

Annual and sick leave are a part of permanent employees' compensation as set forth in NDCC section 54-06-14. In general, accrued annual leave cannot exceed 30 days at each calendar year end while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement. Employees who vest at 10 years of credible service are paid one-tenth of their accumulated sick leave upon termination or retirement. Compensated absences are accrued when earned.

### **SCHOLARSHIP ALLOWANCES**

Student tuition and fees, and certain other revenues received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net assets. Scholarship discounts and allowances are the difference between the System's state rates and charges and the amount actually paid by students and/or third parties making payments on behalf of students. Under this approach, scholarships, waivers and grants are considered as reductions in tuition and fee revenues rather than as expenses. Therefore, student tuition and fees and auxiliary revenues are presented net of scholarships applied to student's accounts. Certain other scholarship amounts paid or refunded directly to the student are generally reflected as expenses.

### **NET ASSETS**

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Restricted Net Assets represent funds that have been restricted for specific purposes by donors or granting agencies for scholarships and fellowships, instructional department uses, loan funds, debt service and other. Unrestricted Net Assets are all other funds available at the discretion of the University. Invested in Capital Assets represents the cost or gifted value of buildings, equipment, land improvements and infrastructure, less accumulated depreciation and related outstanding debt.

### **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying financial statements include estimates such items as allowances for uncollectible accounts, scholarship allowances, accrued expenses and other liability accounts.

## *Notes to Financial Statements*

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### **New Accounting Pronouncements**

In November 2010, the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." The statement applies to certain service concession arrangements, which are a type of public-private or public-public partnership. The statement is effective for periods beginning after December 15, 2011.

In June 2011, the GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The statement is effective for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement defines deferred inflows and outflows and is effective for periods beginning after December 15, 2012.

In March 2012, the GASB issued Statement No. 66, "Technical Corrections-2012, an amendment of GASB Statements No. 10 and No. 62." The statement is effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement No. 67, "Financial Reporting for Pension Plans –an amendment of GASB Statement No. 25." The statement is effective for periods beginning after June 15, 2013.

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27." The statement is effective for periods beginning after June 15, 2014.

The effect these statements will have on future financial statements has not yet been determined.

## ***Note 2 – Deposits & Investments***

### **LIMITATIONS**

The NDCC governs the deposit and investment policies of the University. NDCC Section 6-09-07 states, "All state funds...must be deposited in the Bank of North Dakota...or must be deposited in accordance with constitutional and statutory provisions."

In addition, NDCC Section 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. NDCC Section 15-10-12 requires that all moneys not deposited in the special revenue fund within the State Treasury (unless restricted by the terms of a grant, donation or bequest), received by the University from federal, state, and local grants and contracts, indirect cost recoveries, tuition, special student fees, room and board, and other auxiliary enterprise fees, student activity fees, continuing education program fees, internal service fund revenues, and all other revenues must be deposited in the Bank of North Dakota.

NDCC Sections 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Such proceeds must be invested in the Bank of North

## Notes to Financial Statements

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Dakota, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the federal deposit insurance corporation. The SBHE may invest such funds in direct obligations of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

NDCC Section 54-06-08 states clearing accounts and cash balances must be maintained in the Bank of North Dakota, or, if the state entity is located outside Bismarck, in another state or federally chartered financial institution. The account is used for clearing or cashing of checks and making change.

### DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Assets as follows:

Deposits	Carrying Amount	Bank Balance
Total Cash Deposits at BND	\$ 19,024,281	\$ 35,724,673
CDs at BND	56,000,000	56,000,000
Total Cash Deposits at Other	9,716,900	6,811,804
CDs at Other	300,000	300,000
Total Deposits	<u>\$ 85,041,181</u>	<u>\$ 98,836,477</u>
Cash on Hand/Petty Cash	104,065	
Less amts reported as investments	<u>(56,300,000)</u>	
Cash & Cash Equ-SNA	<u>\$ 28,845,246</u>	

### Deposits and Investments

Custodial credit risk is the risk that in the event of a financial institution failure, the University's deposits may not be returned to it. The NDCC does not specifically address policies concerning custodial credit risk, and while the deposits in the Bank of North Dakota are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2012, \$98.071 million of the University's bank balance of \$98.836 million was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 91,724,673
Uninsured and collateral held by pledging bank not in University's name	\$ 6,346,808

## Notes to Financial Statements

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### Investments

Investments are reported at fair value (market) and reported on the Statement of Net Assets as of June 30, 2012, as shown below:

Account	Market Value	Maturities from June 30			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
<b>Debt Securities:</b>					
US Treasuries	\$ 12,826		\$ 12,826		
US Strips	138,698	70,968		67,730	
Mutual Bond Funds	84,592	84,592			
Money market mutual funds	6,934,828	6,934,828			
Total Securities w/ Maturities	\$ 7,170,944	\$ 7,090,388	\$ 12,826	\$ 67,730	-
<b>Other Invest Types:</b>					
Stocks	\$ 705,162				
Equity Mutual Funds	378,023				
BND Cd's Credit risked as investments but reported as deposits	56,000,000				
Non-BND Cd's Credit risked as investments but reported as deposits	300,000				
Investment in Real Estate					
Alternate Investments	55,972				
Total reported on SNA	\$ 64,610,101				

### Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Per NDCC the University is limited to investing funds with the Bank of North Dakota, with the exception of gifts governed by an endowment agreement. Accordingly, the University does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The University chooses terms based on maximizing the return within the limits of their cash flow needs. The University relies on brokers to provide year-end market values for the investments held with those brokers.

## Notes to Financial Statements

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### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2012, the University's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

Investment Type	Market Value	Credit Quality Rating	
		AAA	Not Rated
<b>Debt Securities:</b>			
Mutual Bond Funds	\$ 84,592		\$ 84,592
Money market mutual funds	6,934,828	6,934,828	
<b>Total</b>	<b>\$ 7,019,420</b>	<b>\$ 6,934,828</b>	<b>\$ 84,592</b>

## Note 3 – Receivables

Receivables at June 30, 2012 consist of the following amounts:

	Current	NonCurrent	Total
Student & General	\$ 7,365,760		\$ 7,365,760
Interest Receivable	220,159		220,159
Allow ance for doubtful Accts	(2,080,860)		(2,080,860)
<b>Total Accounts Receivable, Net</b>	<b>\$ 5,505,059</b>		<b>\$ 5,505,059</b>
Grants & Contracts Receivable	\$ 17,041,130		\$ 17,041,130
<b>Total Grants &amp; Contracts Receivable, Net</b>	<b>\$ 17,041,130</b>		<b>\$ 17,041,130</b>
Student	\$ 1,670,869	\$ 6,010,176	\$ 7,681,045
Allow ance for Doubtful Notes	(200,408)	(723,133)	(923,541)
<b>Total Notes Receivable, Net</b>	<b>\$ 1,470,460</b>	<b>\$ 5,287,044</b>	<b>\$ 6,757,504</b>

## Note 4 – Endowment Funds

The endowment funds reported herein are donor-restricted funds in the custody of the University System. NDCC Section 59-21 applies to the investment of endowments governed by a gift instrument. Subject to any limitations in the gift instrument such funds may be invested in

## Notes to Financial Statements

any real or personal property deemed advisable by the governing board. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in managing and investing an institutional fund, the needs of the institution and the fund to make distributions and to preserve capital must be considered. Given the flexibility in NDCC 59-21-02, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. NDSU gives departments authority to spend all investment income earned on the endowment funds.

Net appreciation on investments are available for expenditure and consists of the following at June 30, 2012:

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land Department. The annual proceeds from assets held by the State Land Commissioner are deposited into the University's operating fund at the State Treasury and are used for current operating purposes.

Total Land Department assets	\$ 74.1 million
NDSU Proceeds	\$ 712,000

### Note 5 – Capital & Intangible Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 7,343,932				\$ 7,343,932
Construction in Progress	40,483,521	\$ 20,837,789	\$ 547,571	\$ (23,090,288)	37,683,451
<b>Total non-depreciable capital assets</b>	<b>\$ 47,827,453</b>	<b>\$ 20,837,789</b>	<b>\$ 547,571</b>	<b>\$ (23,090,288)</b>	<b>\$ 45,027,383</b>
Land Improvements/infrastructure	\$ 47,000,420	\$ 310,965			\$ 47,311,385
Buildings	315,670,430	4,884,832		\$ 23,090,288	343,645,550
Furniture, fixtures, and equipment	112,710,717	8,213,892	\$ 2,275,803		118,648,806
Intangibles:					
Computer Software	923,333	53,193			976,526
Other	(923,333)	302,904			(620,429)
Library Materials	17,032,504	739,736	385,186		17,387,054
<b>Total Depreciable Capital Assets</b>	<b>\$ 492,414,071</b>	<b>\$ 14,505,522</b>	<b>\$ 2,660,989</b>	<b>\$ 23,090,288</b>	<b>\$ 527,348,892</b>
<b>Less accumulated depreciation and amortization</b>					
Land Improvements/infrastructure	\$ 29,730,112	\$ 1,208,093			\$ 30,938,205
Buildings	139,937,276	8,993,951			148,931,227
Furniture, fixtures, and equipment	59,394,248	7,504,616	\$ 1,850,405		65,048,459
Intangibles:					
Computer Software	534,689	156,981			691,670
Other	(534,689)	16,975			(517,714)
Library Materials	11,826,458	1,020,595	385,186		12,461,867
<b>Total Accumulated depreciation and amortization</b>	<b>\$ 240,888,094</b>	<b>\$ 18,901,211</b>	<b>\$ 2,235,591</b>	<b>\$ -</b>	<b>\$ 257,553,714</b>
<b>Total Depreciable Capital Assets, net</b>	<b>\$ 251,525,977</b>	<b>\$ (4,395,689)</b>	<b>\$ 425,398</b>	<b>\$ 23,090,288</b>	<b>\$ 269,795,178</b>
<b>Capital Assets, net</b>	<b>\$ 299,353,430</b>	<b>\$ 16,442,100</b>	<b>\$ 972,969</b>	<b>\$ -</b>	<b>\$ 314,822,561</b>

## Notes to Financial Statements

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Construction in progress for the year ended June 30, 2012 was as follows:

<b>Project</b>	<b>Amount Authorized</b>	<b>Expended (CIP Balance)</b>	<b>Expended (non-capitalized)</b>	<b>Authorized Balance</b>
Ag Research Greenhouse-Phase III	\$ 9,412,816	\$ 3,210,627	\$ 76,898	6,125,291
Minard Hall	22,874,300	14,442,464		8,431,836
West Dining Center Addition	7,000,000	5,299,430	124,789	1,575,781
Bison Sports Arena	29,100,000	1,335,831	13,783	27,750,386
Energy Savings Project	11,000,000	8,129,657		2,870,343
Indoor Track	5,500,000	3,239,126		2,260,874
Research 1 Expansion	9,011,750	1,094,760		7,916,990
Appareo Building Remodeling	1,000,000	931,556		68,444
<b>Construction in Progress Total</b>	<b>94,898,866</b>	<b>37,683,451</b>	<b>215,470</b>	<b>56,999,945</b>

## Notes to Financial Statements

### Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2012:

Accounts Payable	\$ 8,222,631
Accrued Interest	1,123,940
Total Payables & Accrued Liabilities	<u>\$ 9,346,571</u>

### Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2012 are as shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Bonds Payable	\$ 84,905,000	\$ 5,730,000	\$ 11,245,000	\$ 79,390,000	\$ 2,060,000	\$ 77,330,000
Due to CU - Bonds Payable	22,765,000		900,000	21,865,000	925,000	20,940,000
Capital Leases	8,944,049	340,516	853,780	8,430,785	882,292	7,548,493
Due to CU - Capital Leases	23,604,224	11,910,000	11,485,641	24,028,583	1,358,680	22,669,903
Special Assessments	2,294,564		60,677	2,233,887	63,739	2,170,148
Compensated Absences	14,186,812		1,354,243	12,832,569	663,444	12,169,125
<b>Total</b>	<b>\$ 156,699,649</b>	<b>\$ 17,980,516</b>	<b>\$ 25,899,341</b>	<b>\$ 148,780,824</b>	<b>\$ 5,953,155</b>	<b>\$ 142,827,669</b>

### Note 8 – Bonds Payable

Revenue bonds are limited obligations of the University. The principal and interest on the bonds are payable generally from the net income of specific auxiliary activities, designated student fees, interest subsidies and debt service reserve funds. These revenues are generally pledged to the payment of bonds in accordance with the specific terms of the specific indenture. Amounts held by the trustee specifically for payment on bonds are reflected in Net Assets, Restricted for Debt Service.

The summary of outstanding obligations of the campuses, as of June 30, 2012 is presented below and the detail is presented in the Supplementary Information section following these notes.

## Notes to Financial Statements

Bond Issue	Date of Issue	Maturity Date	Original	Bonds		Retired Early on Call Date	Bond Principal	Bonds
			Amount of Issue	Outstanding 6/30/11	Refunding Bonds		paid this Fiscal Year	Outstanding 6/30/12
<b>Housing and Auxiliary System Revenue Bonds:</b>								
2002 Living Learning Center-West	3/1/2002	4/1/2032	\$ 7,600,000	\$ 6,375,000	\$ (6,195,000)		\$ 180,000	
2002 Minard Hall	8/1/2002	4/1/2032	3,000,000	2,450,000		\$ 2,380,000	70,000	
2003 Refunding Bonds (Series 1992)	1/1/2003	4/1/2012	5,990,000	750,000			750,000	
2004 Bison Court Replacement	8/1/2004	4/1/2034	10,350,000	8,975,000			230,000	\$ 8,745,000
2005 Memorial Union Addition	8/1/2005	4/1/2035	18,700,000	17,495,000			430,000	17,065,000
2006A Wellness Center Addition	5/1/2006	4/1/2036	9,990,000	9,100,000			205,000	8,895,000
2006B Wellness Center Refunding(Series 1999)	5/1/2006	4/1/2029	2,845,000	2,620,000			100,000	2,520,000
2007 Living Learning Center East/Ceres Hall	7/31/2007	4/1/2037	12,000,000	11,375,000			205,000	11,170,000
2009 Niskanen/West Dining Center	7/29/2009	4/1/2039	26,245,000	25,765,000			500,000	25,265,000
2012A Refunding (Series 2002 LLC Bonds)	3/1/2012	4/1/2027	5,730,000		5,730,000			5,730,000
Subtotal - NDSU			\$102,450,000	\$ 84,905,000	\$ (465,000)	\$ 2,380,000	\$ 2,670,000	\$ 79,390,000
<b>NDSU Research &amp; Tech Park, Inc.</b>								
Series 2002, Research 2	8/1/2002	4/1/2032	\$ 20,450,000	\$ 515,000			\$ 515,000	
Series 2007A, Research 1 (Refunding Series 2000)	1/25/2007	4/1/2022		4,535,000			335,000	4,200,000
Series 2007B, Research 2 (Refunding Series 2002)	1/25/2007	4/1/2032		17,715,000			50,000	17,665,000
Subtotal - NDSU Research & Tech Park, Inc.			\$ 26,950,000	\$ 22,765,000			\$ 900,000	\$ 21,865,000
GRAND TOTAL BONDS PAYABLE			\$129,400,000	\$ 107,670,000	\$ (465,000)	\$ 2,380,000	\$ 3,570,000	\$ 101,255,000

### Refunding and Defeased Bonds

The purpose of a refunding bond is to refund in advance of maturity another bond issue. Under an advanced refunding arrangement, refunding bonds are issued, and the net proceeds plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds. As a result, trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. The following is a description of the University's defeased bonds and the balance of the bonds outstanding in the trust.

### North Dakota State University

On March 1, 2012, North Dakota State University issued \$5.730 million of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 2012) with an interest rates ranging from 2.0 to 3.0 percent. The bonds were used to call \$6,195,000 of outstanding Series 2002 Housing and Auxiliary Facilities Revenue Bonds. The University advance refunded the bonds to reduce its total debt service payments over the next 20 years by approximately \$1,192,255 and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of approximately \$688,240. The reduction in the reserve requirement of \$507,510 and the net proceeds of \$6,407,510 (after payment of underwriting fees and other issuance costs) were used to pay the principal and outstanding interest on the 2002 bonds. As a result, the 2002 bonds are considered paid in full and the liability for those bonds has been removed from the Statement of Net Assets.

## Notes to Financial Statements

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### Scheduled Maturities of Bonds Payable

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,985,000	\$ 4,495,758	\$ 7,480,758
2014	3,110,000	4,376,168	7,486,168
2015	3,250,000	4,261,185	7,511,185
2016	3,375,000	4,140,500	7,515,500
2017	3,515,000	4,014,749	7,529,749
2018 - 2022	19,750,000	17,834,835	37,584,835
2023 - 2027	21,530,000	13,436,435	34,966,435
2028 - 2032	23,670,000	8,371,107	32,041,107
2033 - 2037	16,885,000	3,086,475	19,971,475
2038 - 2042	3,185,000	252,787	3,437,787
	<u>\$ 101,255,000</u>	<u>\$ 64,269,999</u>	<u>\$ 165,524,999</u>

### **Note 9 – Notes Payable**

The University does not have any outstanding notes payable as of June 30, 2012.

### **Note 10 – Capital Leases**

The University leases various types of capital assets under capital lease agreements. Capital leases give rise to property rights and lease obligations and therefore, the assets under lease are recorded as assets of the institution and the lease obligation is recognized as a liability. The leases have varying interest rates with maturities to 2026.

## Notes to Financial Statements

A summary of the Capital Lease & Due to Component Unit activity for fiscal 2012 is as follows:

LEASE NUMBER	Lease Start	DESCRIPTION	Terms (in Months)	PRINCIPAL BALANCE DUE	PRINCIPAL	PRINCIPAL	PRINCIPAL BALANCE DUE
	Date			7/1/2011	NEW LEASES	PAID	06/30/12
<b>Capital Leases</b>							
423	06/30/03	ND Industrial Commission-Energy Conserv	113	\$ 115,000		\$ 115,000	\$ -
454	07/01/04	Butler Machinery-Generator	108	98,663		98,663	
485	04/04/07	GE Capital-No Till Drill	60	11,798		11,798	
499	03/06/08	GE Capital-2007 Case Skid Steer	55	7,405		3,623	3,782
501	06/04/08	GE Capital-Almaco Row Crop Planter	50	11,300		5,525	5,775
502	06/04/08	GE Capital-Almaco Seed Drill	50	35,178		35,178	
513	06/25/08	GE Capital-Wintersteiger Perkins Combine	61	26,585		26,585	
514	05/08/09	Wells Fargo-Daktech Rackmount Servers	36	17,097		17,097	
515	02/04/09	GE Capital-Forage Harvester	55	20,159		9,733	10,426
527	11/12/08	Wells Fargo-Athletic Field Turf	96	392,586		57,081	335,505
521	06/30/09	JPR Investments LLC-StopNGo--Build Out	36	95,000			95,000
530	09/25/09	Wells Fargo-File Servers	44	14,195		6,953	7,242
533	08/15/09	Cityscapes- Security Office Fit-up loan	58	151,592		48,784	102,808
534	10/01/09	Cityscapes- Bookstore Fit-up loan	56	115,388		36,578	78,810
573	06/24/12	Bank of America-Energy Savings Performance Contract	168	7,266,959			7,266,959
544	03/10/10	Wells Fargo-File Servers	45	19,946		7,732	12,214
553	06/02/10	Wells Fargo-File Servers	38	30,369		14,887	15,482
554	06/10/10	Wells Fargo-Maxxum 125 MFD Loader	49	31,332		7,373	23,959
555	07/12/10	Wells Fargo-New Holland Tractor/Loader	48	78,461		18,463	59,998
567	12/17/10	Wells Fargo-Analytical Instruments	49	77,953		18,330	59,623
568	12/21/10	Wells Fargo-New Case 440 Skidsteer	49	17,969		4,225	13,744
569	03/18/11	System	17	100,000		100,000	
570	05/16/11	Wells Fargo-Wintersteiger Classic Combine	38	103,512		103,512	
571	06/02/11	Wells Fargo-John Deere 444 K 2011 Loader	39	57,600		14,911	42,689
572	03/11/11	Wells Fargo-2007 Case IH MX245 MFD Tractor	53	48,000		9,773	38,227
578	12/30/11	Wells Fargo-Almaco Model SPC2-B Combine	25		239,083	81,975	157,108
584	03/15/12	Wells Fargo-Truax FLEXII Drill, Model FLXII-812RD	60		21,051		21,051
585	06/30/12	Wells Fargo-Zurn 150 Demo Plot Combine	49		80,382		80,382
				<u>\$ 8,944,047</u>	<u>\$ 340,516</u>	<u>\$ 853,779</u>	<u>\$ 8,430,784</u>
<b>Due to Component Units - Capital Leases</b>							
433	01/01/03	NDSU Development Fnd-Equine Science Center	261	\$ 3,245,000		\$ 175,000	\$ 3,070,000
465	10/10/05	NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF	180	2,498,866		212,366	2,286,500
486	06/28/07	GE Capital for NDSU Dev Fnd-Aircraft	120	1,577,381		220,297	1,357,084
503	11/29/07	NDSU Development Foundation-Barry Hall	240	7,015,556		7,015,556	
504	11/29/07	NDSU Development Foundation-Klai Hall	240	3,687,422		3,687,422	
476	07/01/05	NDSU Development Foundation-Renaissance Hall	303	5,580,000		175,000	5,405,000
586	05/01/12	NDSU Development Foundation-Barry & Klai Hall (Refund Lease # 503 & 504, above)	295		11,910,000		11,910,000
				<u>\$ 23,604,225</u>	<u>\$ 11,910,000</u>	<u>\$ 11,485,641</u>	<u>\$ 24,028,584</u>
		Grand Total		<u>\$ 32,548,272</u>	<u>\$ 12,250,516</u>	<u>\$ 12,339,420</u>	<u>\$ 32,459,368</u>

## Notes to Financial Statements

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### Scheduled Maturities of Capital Leases & Due to Component Units

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,240,972	\$ 1,024,041	\$ 3,265,013
2014	1,957,224	1,177,280	3,134,504
2015	1,860,322	1,098,695	2,959,017
2016	1,862,231	1,022,640	2,884,871
2017	1,935,804	945,816	2,881,620
2018 - 2022	7,973,566	3,777,625	11,751,191
2023 - 2027	6,125,501	2,518,189	8,643,690
2028 - 2032	3,346,662	1,600,428	4,947,090
2033 - 2037	4,082,547	867,493	4,950,040
2038 - 2042	1,074,539	165,405	1,239,944
	<u>\$ 32,459,368</u>	<u>\$ 14,197,612</u>	<u>\$ 46,656,980</u>

### Note 11 – Other Long-Term Liabilities

#### SPECIAL ASSESSMENTS

The institutions receive special assessments from the city or county for improvements made to roads and infrastructure owned by the city or county that are adjacent to or on campus property.

#### Scheduled Maturities of Special Assessments

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 63,739	\$ 112,948	\$ 176,687
2014	67,166	109,606	176,772
2015	70,029	106,082	176,111
2016	72,805	102,413	175,218
2017	76,415	98,606	175,021
2018 - 2022	410,109	431,375	841,484
2023 - 2027	495,778	320,287	816,065
2028 - 2032	587,040	184,448	771,488
2033 - 2037	390,806	39,081	429,887
	<u>\$ 2,233,887</u>	<u>\$ 1,504,846</u>	<u>\$ 3,738,733</u>

### **Compensated Absences**

The compensated absences liability as of June 30, 2012 consists of accumulated unpaid annual leave, compensatory time, payable portion of accumulated sick leave, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for employees at June 30, 2012 and 2011 totaled \$12,832,569 and \$14,186,812, respectively. Leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

## **Note 12 – Retirement Benefits**

The North Dakota University System participates in two major retirement systems: North Dakota Public Employees' Retirement System administered by the State of North Dakota and a privately administered retirement system: Teachers' Insurance Annuity Association and College Retirement Equity Fund. The following is a brief description of each plan:

### **NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (NDPERS)**

#### **Description of Plan**

NDPERS is a cost-sharing, multiple-employer, defined benefit pension plan covering substantially all broadband employees of the University. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit, monthly payments in an amount equal to the employee's accrued 100 percent joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary. Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2 percent of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service. A financial report that includes financial statements and the required supplementary information for NDPERS can be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502.

#### **Funding Policy**

NDPERS is funded by employee contributions (set by statute) of 4 percent of regular compensation. During the 1983-1985 biennium the State implemented the employer pickup provision of the IRS code whereby the employer makes all or a portion of the required employee contributions. The State is paying the full employee contribution. Employer contributions of 4.12

## Notes to Financial Statements

percent of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code, changes to the plan documents must be approved by the legislature and Governor. The University System's required and actual contributions to NDPERS for the fiscal years ending June 30, 2012 and 2011 were \$2,959,920 and \$2,734,015, respectively.

### Teachers' Insurance Annuity Association and College Retirement Fund (TIAA-CREF)

#### Description of Plan

This is a privately administered defined contribution retirement plan which provides individual retirement fund contracts for eligible employees as defined by the Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. The State Board of Higher Education has the authority for establishing or amending plan provision and establishing or amending contribution requirements. Further information can be obtained by writing to TIAA-CREF; Denver Regional Office; 1700 Broadway, Suite 770; Denver, Colorado 80290 or by calling 800-842-2009.

#### Funding Policy

The plan requires employee and employer contributions be based on a classification system and years of service based on the following schedule:

Employment Class	Years of Service	Contributions by the Participant	Contributions by the Institution
I	0 thru 10	2.5%	10.5%
	over 10	3.0%	11.0%
II	0 thru 2	1.5%	5.5%
	3 thru 10	2.5%	10.5%
	over 10	3.0%	11.0%
President/Chancellor (additional employer contribution)	0 thru 12	0.0%	8.33%*
	or less than 3	0.0%	0.0%
	3 to less than 6	0.0%	4.0%
	6 yrs and over	0.0%	8.0%

\* A final contribution is made in the year the president terminates employment equal to the difference between total contributions made and the president's final annual salary in year of termination of employment.

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The University has no further liability once annual contributions are made. The University contributed \$11,733,735 and \$10,896,573 in June 30, 2010, and 2011 respectively to TIAA-CREF.

### **Note 13 - Post Retirement Benefits**

#### **State Group Health Plan**

Members who receive retirement benefits from the Public Employees Retirement System may receive a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The benefits are set by statute and the plan is a cost-sharing multiple-employer defined benefit plan. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1.14% of covered compensation.

#### **Early Retirement Agreements**

When early retirement is deemed to be in the mutual benefit of an employee and the University, the SBHE has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, professional staff, president, vice president, provosts, deans, and other officers responsible for a major unit of an institution who report directly to a president, vice president, provost who are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2012, no employees elected early retirement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100% of the employee's final contract salary if the sum of the employee's age and total years of employment equals 70 or greater. Payments will be pursuant to the approved agreement, but cannot be made until at least 90 days after the date of Early Retirement Agreement. During the fiscal year ended June 30, 2012, no University employees elected to participate in this option. Policy 703.1 also allows the Early Retirement Agreements to retain the retiree on the applicable group health and life insurance plan. Payment by the University is negotiable. Total costs to the University for these termination benefits will be \$0 over the term of the new contract. Amounts payable to employees at June 30, 2012, for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$0.00, assuming health insurance premium increases of 5-10 % and a discount rate of .3%.

Under the Phased Retirement Option, retirement occurs over a period of time. The percentage of workload is negotiated each year. The University may pay all or part of the retirement contributions on the current salary or part of the individual's salary until the individual terminates employment. During the fiscal year ended June 30, 2012, no employees elected this option.

#### **Severance Agreements**

In fiscal year 2012, NDSU paid a total of \$114,190 to 15 employees under separate employment separation agreements.

## Notes to Financial Statements

### Note 14 - Construction Commitments and Financing

The University has contracted for the construction of various projects as of June 30, 2012. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Project	Contracts Awarded	Expended Through June 30, 2012	Total Cost To Complete	Funding for remaining costs			
				Federal Sources	State Sources	Institutional Funds	Other Sources
West Dining Center	\$ 4,836,684	\$ 4,836,684	-				
Minard Hall	19,553,280	14,363,167	\$ 5,190,113		\$ 5,190,113		
Bison Sports Arena	1,875,680	225,786	1,649,894				\$ 1,649,894
R1 Addition	6,953,653	1,081,957	5,871,696	\$ 3,288,150	2,583,546		
Appareo	823,323	823,323	-				
Indoor Track Facility	5,084,479	3,126,256	1,958,223				1,958,223
Energy Savings Project	10,120,489	8,144,247	1,976,242				1,976,242
AES Greenhouse	32,003,472	25,858,808	6,144,663		3,883,773		2,260,891
AES WREC Addition	1,635,689	1,635,689	-				
AES DREC Renovation	483,300	483,300	-				
Grand Totals	\$ 83,370,048	\$ 60,579,216	\$ 22,790,832	\$ 3,288,150	\$ 11,657,432	\$ -	\$ 7,845,250

### Note 15 - Component Unit Transactions

#### MAJOR COMPONENT UNITS

##### North Dakota State University and NDSU Research and Technology Park, Inc.

On December 30, 1999, NDSU through the State of North Dakota and the North Dakota State Board of Higher Education entered into a ground lease, whereby the NDSU Research & Technology Park, Inc. (component unit) leases 40 acres of land for \$1 per year for the next seventy-five years.

On November 1, 2000, NDSU Research and Technology Park, Inc. (RTP) entered into a \$6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. On August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second Research Building. The second lease agreement was for \$20,450,000.

On January 25, 2007, the city of Fargo, on behalf of the NDSU Research & Technology Park, issued \$4,735,000 of Series 2007A (Research 1) and \$18,100,000 of Series 2007B (Research 2) Lease Revenue Refunding Bonds. These bonds are used to advance refund the callable maturities of both the Series 2000 (Research 1) and Series 2002 (Research 2) bonds and to pay the costs of issuance (including the insurance premium for the insurance policy and the

## *Notes to Financial Statements*

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reserve fund surety bond) relating to bonds for both Series A and 2B bonds. For the Series 2000 bonds, there is a principal amount of \$4,365,000 of callable maturities on October 1 in years 2011 through 2021. For the Series 2002 bonds, there is a principal amount of \$17,215,000 of callable maturities on October 1 in years 2013 through 2032. The Series 2000 and 2002 bonds were repaid in full with funds held in escrow from the Series 2007 A & B bond refinancing during fiscal 2011 & 2012. As of June 30, 2012 there is no outstanding principal on the original Series 2000 & 2002 bonds.

The audited financial statements of RTP for fiscal year 2011 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

NDSU and RTP have entered into an operating agreement, whereby NDSU leases Research Building #1 for an annual rent of \$628,943 and Research Building #2 for \$1,525,963 through July 2013, plus utilities and insurance. Total payments under these agreements in fiscal year 2012 were approximately \$2.3 million. These agreements are subject to funding and legislative appropriations. On July 1, 2002, NDSU and RTP entered into an agreement for cooperation and assistance between entities. The agreement automatically extends for one-year periods unless cancelled by either party to the agreement.

### **North Dakota State University and NDSU Development Foundation**

#### **NDSU Equine Center**

Effective January 1, 2003, NDSU and the NDSU Development Foundation entered into a ten-year lease agreement with an option for an additional ten year term to facilitate the construction of an Equine Science Center. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the \$4.355 million debt service retirement plus necessary insurance and taxes incurred by the Development Foundation. NDSU paid the Development Foundation \$329,919 in fiscal year 2012 under this agreement.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of \$3,070,000 as of June 30, 2012. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Equine Center, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

#### **Fargodome Lease and Improvements**

In fiscal year 2006, the NDSU Development Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Development Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2012, the Development Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$331,996.

## *Notes to Financial Statements*

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The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSU Development Foundation. NDSU has also recorded a capital asset and a capital lease payable of \$2,286,500 as of June 30, 2012. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

### **Renaissance Hall**

The former Northern School Supply building was donated to the NDSU Development Foundation by NDSU alum in December of 2001. During fiscal year 2003 and 2004, the NDSU Development Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004.

The Development Foundation transferred nearly the entire ownership of the building to 650 NP Avenue, LLC and Kilburne Design Group, LLC, for a five-year period in order to achieve tax credits that would ultimately reduce the cost of the building to NDSU. During the five-year tax credit period, NDSU leased the building from the two LLCs, with the lease payments composed of interest and fees. With the five-year tax credit period ending December 31, 2010 (as extended), and the ownership was transferred back to the Development Foundation, permanent financing was put in place on December 17, 2010, with the issuance of \$5,650,000 of 20-year University Facilities Lease Revenue Bonds, Series 2010 (Renaissance Hall Project). The financing structure involving the five-year temporary ownership transfer resulted in a achieving tax credits of \$4.9 million which directly lowered the leasing cost to NDSU.

Under this refinanced debt issuance and lease agreement, as approved by the State Board of Higher Education on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the Development Foundation incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. During fiscal 2012, NDSU paid \$420,042 to the NDSU Development Foundation for under the lease for debt service, property taxes and insurance on Renaissance Hall. As of June 30, 2012 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$5,405,000.

### **Aircraft**

Effective June 28, 2007, NDSU and the NDSU Development Foundation entered into a \$2,348,000, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU will pay rent to the NDSU Development Foundation for use of the aircraft. The amount of the rent is equal to the amount of the principal and interest payments on the loan, for the life of the loan. During fiscal year 2012, NDSU made \$322,919 of debt service payments to the NDSU Development Foundation on the Aircraft lease. The University is responsible for all costs incurred in operation and maintenance of the aircraft. Upon completion of the loan payments, ownership of the aircraft will be transferred to NDSU. Since the Development Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the leased aircraft, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

## *Notes to Financial Statements*

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### **Barry Hall Business Building and Klai Hall Architecture Building**

Effective November 28, 2007, NDSU and the NDSU Development Foundation entered into lease agreements for two buildings in downtown Fargo, formerly known as the "Pioneer Mutual Building" and "Lincoln Mutual building". The Foundation financed the construction of the Barry Hall business building and Klai Hall architecture building projects through the sale of \$18.52 million of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and interest payments on the fixed-rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. NDSU has an option to acquire the property upon full payment of the bonds. During fiscal 2012, NDSU paid \$807,122 to the NDSU Development Foundation under the leases for debt service, property taxes and insurance on Barry Hall & Klai Hall.

On May 1, 2012, the City of Fargo, on behalf of the NDSU Development Foundation issued \$11,910,000 of University Facilities Revenue Refunding Bonds, Series 2012. These 24 year bonds were issued for the purpose of a current refunding all of the Series 2007 Bonds (Series 2007A – 2007D), including both fixed rate debt (paid from a lease agreement with NDSU) and variable rate debt (paid from donor pledges to the Foundation). Under this refunding, all prior Series 2007 bonds were retired on May 29, 2012. As part of this refunding of Foundation bonds, a new lease agreement between NDSU and the Foundation was entered into May 1, 2012. Since the new Series 2012 bonds covers both the Series 2007 fixed rate and variable rate bond issues, the new lease agreement calls for the Foundation to pay \$1,326,800 of the principal of the Bonds from the collection of donor pledges. NDSU will receive a reduction in basic rent to the extent of the principal payments made by the Foundation from the collection of pledges. A net present value savings of \$1,661,406 (13.47% of the refunded bonds) was achieved from this refinancing.

On the Statement of Net Assets as of June 30, 2012, NDSU is reporting the \$1,326,800 payable from the Foundation as Due from Component Unit (current asset \$106,500; non-current asset \$1,220,300); in addition, NDSU is reporting the full amount of the new debt, through the new lease agreement, as a Long-Term Liability (Payable to Component Units) for a total of \$11,910,000.

### **NDSU President's House**

On September 15, 2008, the NDSU Development Foundation financed the construction of a new residence for the NDSU President through the sale of \$900,000 of 30 year University Facilities Bonds. The interest rate is a fixed rate of 4.20% with semi-annual principal and interest payments. The repayment source is private donations and pledges. The bonds payable have a balance of \$846,969 at December 31, 2011. During fiscal year 2010, the President's House was capitalized on NDSU's books for the sum of the Foundation & NDSU costs, plus the donated services (\$2,605,983).

## Notes to Financial Statements

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### Other Transactions

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and buildings and for lease of a vehicle. Amounts paid under these agreements in fiscal year 2012 totaled \$574,551. In addition, the Development Foundation may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

### NON-MAJOR COMPONENT UNITS

#### North Dakota State University and North Dakota State University Research Foundation

Revenues from research fees & royalties received from patents and other intellectual property or know-how are first used to cover expenses incurred in patenting, licensing, collection, and other expenses related to the technology. After these expenses have been paid, the net research fee (royalty) income is divided so that at least 30% of the net proceeds will be paid to those responsible for the invention, and 70% is distributed by negotiation between the department, college, and the Foundation. The portion distributable to an NDSU department is credited to a liability account called Distributable Managed Funds and recognized as an expense at the Foundation. NDSU reports an offsetting revenue and receivable (Due from Component Units) in its financial statements. A summary of the fiscal 2012 activity in the Distributable Managed Funds liability account at the Foundation is as follows:

Beginning Distributable Managed Funds (DMF) as of 6/30/2011	\$	2,137,205
Royalties transferred to DMFs		546,790
Portion of above Royalties distributed to NDSU Departments		(2,683,995)
Other Payments on account to NDSU Departments		
Ending Distributable Managed Funds as of 6/30/2012	\$	-

### Note 16 – On-Behalf Payments

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries for fiscal year ended June 30, 2012 is \$58,350. There were no on-behalf payments made as contributions to a pension plan for which the System is not legally responsible.

## Notes to Financial Statements

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### Note 17 – Functional Expense Classification

The System reports operating expenses using the “natural classification” on the Statement of Revenues, Expenses and Changes in Net Assets. Operating expenses for the year ending June 30, 2012, using the “functional classification” are presented below:

<b>Operating Expenses</b>	
Instruction	\$ 76,848,196
Academic Support	24,286,566
Student Services	13,705,211
Institutional Support	7,621,860
Physical Plant	20,625,609
Scholarships & Fellowships	14,441,113
Auxiliary Services	50,059,606
Public Service	29,721,476
Research	90,257,450
Depreciation & Amortization	18,901,210
Total	<u>346,468,297</u>

### Note 18 – Operating Leases

The campuses are obligated under certain leases for equipment, vehicles and facility rental, which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2012, amounted to \$2.3 million.

Future Minimum Lease Payments at June 30, 2012:

<b>Fiscal Year</b>	<b>Future Minimum Lease Payments</b>
2013	\$ 1,904,666
2014	1,569,354
2015	1,262,369
2016	1,122,169
2017	912,351
2018 - 2022	1,351,118
Total	<u>\$ 8,122,027</u>

### **Note 19 – Contingencies**

Amounts received and expended by the North Dakota State University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

In the normal course of its activities, the University is party to various legal actions. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the University System. Therefore, an estimated liability has not been recorded.

#### **Minard Hall**

Minard Hall is the largest academic facility located in the historical district on NDSU's campus. Legislative appropriations were approved for the 2007-09 & 2009-11 biennia for the renovation and an addition to Minard Hall. Original authorized funding for the project is \$18,000,000: \$17,500,000 general funds and \$500,000 special/local funds.

Minard Hall experienced an unprecedented partial collapse of the north wall in the early morning hours of December 27, 2009. The partial collapse of Minard Hall's north wall, during the construction of the legislatively approved addition, resulted in a delay in the completion of the project, increased costs for construction and legal expenses, as well as numerous other issues, such as relocation of faculty, staff, and classroom space. Since that time NDSU has been periodically updating the State Board of Higher Education and the Legislative Assembly's Budget Section, as information becomes available.

In November & December of 2011, the State Board of Higher Education and Legislative Assembly's Budget Section approved NDSU to incur additional costs of \$4,874,300 due to the collapse. The State Board of Higher Education approved a \$4,874,300 increase with the intent that up to this amount (less any recovered from insurance or legal action) be ultimately funded by a state general fund deficiency appropriation per NDCC 48-01-.2-25. The Budget Section's approval indicated the additional funding come from insurance proceeds, legal settlements, and other available funds.

As of June 30, 2012, total costs charged to the Minard Hall project are \$15,706,620 which is still within the original \$18,000,000 authorized funding. As of the reporting date for the fiscal 2012 financials, NDSU is pursuing litigation against multiple parties in order to recoup the damages incurred as a result of the collapse.

### **Note 20 – Risk Management**

The University System is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues.

## *Notes to Financial Statements*

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### **RISK MANAGEMENT FUND**

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies, employees and the University System. All state agencies participate in the RMF and each fund's contribution was determined using a projected cost allocation approach. The system obtains most of its insurance through the RMF.

### **NORTH DAKOTA FIRE AND TORNADO AND STATE BONDING FUND**

The University System also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The University System pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is determined in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the University System with blanket fidelity bond coverage in the amount of \$750,000 to \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

### **NORTH DAKOTA WORKFORCE SAFETY AND INSURANCE**

The University System participates in the North Dakota Workforce Safety and Insurance, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and is a no fault insurance system. It covers the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## ***Note 21 – Asbestos Settlement***

During fiscal year 1999, the University System settled an asbestos lawsuit against W.R. Grace & Co. The Chancellor has designated the dollars for asbestos related projects at the campuses. The designated amount for NDSU at June 30, 2012 is \$292,282.

## ***Note 22– Deficit Net Asset Balances > \$100,000***

As of June 30, 2012 the University had a negative net asset balance in excess of \$100,000.

**Fund 28100 – Barry Hall Finishing Costs** - Deficit balance at June 30, 2012 was \$1,587,226.

The deficit is the result of paying furniture, IT equipment and landscaping costs on the Barry Hall project in FY10. Original NDSU plans were to pay for these costs through a lease agreement with the NDSU Development Foundation. During a performance audit in FY10, the State Auditor's Office questioned the legality of lease agreements on Barry Hall; as a result, the lease agreement on the Barry Hall finishing costs was put on hold. Based on advice from the ND University System Office, NDSU did not enter into the planned lease agreement; but instead accumulated the costs in a university fund/project, reporting the deficit, and is currently developing a plan to repay the deficit over 5 years. Paying for the costs using inter-fund borrowing in this manner, results in interest savings and keeps the university's long-term debt

## *Notes to Financial Statements*

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down. During FY12 NDSU made the annual \$530,000 installment payment. The deficit is in line with the deficit reduction plan for Barry Hall as approved by the SBHE Budget Audit & Finance Committee on May 5, 2011.

### ***Note 23 – Subsequent Events***

No reportable subsequent events.

**North Dakota State University**  
**Supplementary Information - Component Units**  
**Statement of Financial Position**  
**For Year Ended June 30, 2012**

	<b>Major Component Units</b>		<b>Non-Major Component Units</b>	
	<b>NDSU Development Foundation</b>	<b>NDSU Research &amp; Technology Park</b>	<b>NDSU Research Foundation</b>	<b>NDSU Team Makers Club</b>
	<b>December 31, 2011</b>	<b>June 30, 2012</b>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 13,382,734	\$ 3,763,968	\$ 175,327	\$ 1,029,475
Short-term investments	11,647,450		150	
Accounts receivable, net		148,140		
Unconditional promises to give, net	6,382,236	2,500		95,754
Inventories				4,084
Other assets	1,747,445	204,390	8,421	2,459
<b>Total Current Assets</b>	<b>\$ 33,159,865</b>	<b>\$ 4,118,998</b>	<b>\$ 183,898</b>	<b>\$ 1,131,772</b>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents			\$ 223,934	
Investments, net of current portion	\$ 94,613,861			\$ 1,793,811
Real estate held for investment, net	45,649,702			
Endowment Investments			3,367,133	
Contracts for deed and notes receivable, net	2,243,003			
Long term pledges receivable	16,439,685	\$ 12,409		
Notes Receivable, net		4,459,750		
Other noncurrent assets	515,109	405,054		
Capital assets, net	5,023,330	25,913,906		618
<b>Total Noncurrent Assets</b>	<b>\$ 164,484,690</b>	<b>\$ 30,791,119</b>	<b>\$ 3,591,067</b>	<b>\$ 1,794,429</b>
<b>Total Assets</b>	<b>\$ 197,644,555</b>	<b>\$ 34,910,117</b>	<b>\$ 3,774,965</b>	<b>\$ 2,926,201</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 1,534,529	\$ 275,193	\$ 93,099	\$ 50,623
Payable to Primary Institution	1,467,422			2,327,280
Accrued payroll		70,875	657	
Current portion of gift annuities & Life Income	739,246			
Deferred revenue				2,214
Other current liabilities	161,362			25,000
Long-term liabilities—current portion	1,169,769	988,140		
<b>Total Current Liabilities</b>	<b>\$ 5,072,328</b>	<b>\$ 1,334,208</b>	<b>\$ 93,756</b>	<b>\$ 2,405,117</b>
<b>Noncurrent Liabilities</b>				
Gift annuities and life income agreements	5,863,292			
Other noncurrent liabilities		1,003,700		
Long-term liabilities	25,589,422	28,123,323		84,719
<b>Total Noncurrent Liabilities</b>	<b>\$ 31,452,714</b>	<b>\$ 29,127,023</b>	<b>\$ -</b>	<b>\$ 84,719</b>
<b>Total Liabilities</b>	<b>\$ 36,525,042</b>	<b>\$ 30,461,231</b>	<b>\$ 93,756</b>	<b>\$ 2,489,836</b>
<b>NET ASSETS</b>				
Temporarily restricted	\$ 41,059,591	\$ 14,909		
Permanently restricted	90,241,055			
Unrestricted	29,818,867	4,433,977	\$ 3,681,209	\$ 436,365
<b>Total Net Assets</b>	<b>\$ 161,119,513</b>	<b>\$ 4,448,886</b>	<b>\$ 3,681,209</b>	<b>\$ 436,365</b>

**North Dakota State University**  
**Supplementary Information - Component Units**  
**Statement of Activities**  
**For Year Ended June 30, 2012**

	<u>Major Component Units</u>		<u>Non-Major Component Units</u>	
	<u>NDSU Development Foundation December 31, 2011</u>	<u>NDSU Research &amp; Technology Park June 30, 2012</u>	<u>NDSU Research Foundation June 30, 2012</u>	<u>NDSU Team Makers Club December 31, 2011</u>
<b>Support and revenue</b>				
Gifts and contributions	\$ 13,370,858	\$ 249,669		\$ 2,370,654
Investment Income	2,663,758		\$ 77,822	5,490
Net realized and unrealized gains (losses) on investments	(10,004,285)		70,075	
Program and event income		39,900		282,223
Other Income	666,734	2,622,620	2,134,567	43,836
<b>Total support and revenue</b>	<b>\$ 6,697,065</b>	<b>\$ 2,912,189</b>	<b>\$ 2,282,464</b>	<b>\$ 2,702,203</b>
<b>Expenses</b>				
Program Services	\$ 2,948,118	\$ 948,292		\$ 2,172,559
Supporting Services	4,312,532	2,422,639	2,152,306	373,675
Fund raising expense				55,084
<b>Total expenses</b>	<b>\$ 7,260,650</b>	<b>\$ 3,370,931</b>	<b>\$ 2,152,306</b>	<b>\$ 2,601,318</b>
<b>Change in Net Assets</b>	<b>\$ (563,585)</b>	<b>\$ (458,742)</b>	<b>\$ 130,158</b>	<b>\$ 100,885</b>
<b>Net Assets, Beginning of Year</b>	<b>\$ 161,683,098</b>	<b>\$ 4,907,628</b>	<b>\$ 3,551,051</b>	<b>\$ 335,480</b>
<b>Net Assets, End of Year</b>	<b>\$ 161,119,513</b>	<b>\$ 4,448,886</b>	<b>\$ 3,681,209</b>	<b>\$ 436,365</b>