

NDSU

NORTH DAKOTA STATE UNIVERSITY

Annual Financial Report
June 30, 2014

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Prepared by the North Dakota State University Accounting Office

North Dakota State University

Management's Discussion and Analysis

JUNE 30, 2014

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, 2014. 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, elite 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.", 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

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 \$514 million and total liabilities of \$169 million, resulting in a net position total of \$345 million (an increase of \$27 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.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; 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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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.

Statement of Net Position

Management's Discussion and Analysis

The following table shows a condensed Statement of Net Position at June 30, 2014 and 2013:

| | 2014 | 2013 | Dollar Change | Percent Change |
|--|-----------------------|-----------------------|------------------------|-------------------|
| ASSETS | | | | |
| Current assets | \$ 103,292,042 | \$ 86,431,265 | \$ 16,860,777 | 20% |
| Other non-current assets | 75,728,321 | 83,514,050 | (7,785,729) | -9% |
| Capital assets, net | 335,384,315 | 331,886,214 | 3,498,101 | 1% |
| Total assets | <u>\$ 514,404,678</u> | <u>\$ 501,831,529</u> | <u>\$ 12,573,149</u> | <u>3%</u> |
| LIABILITIES | | | | |
| Current liabilities | \$ 39,070,038 | \$ 43,220,539 | \$ (4,150,501) | -10% |
| Noncurrent liabilities | 130,813,445 | 139,277,540 | (8,464,095) | -6% |
| Total liabilities | <u>\$ 169,883,483</u> | <u>\$ 182,498,079</u> | <u>\$ (12,614,596)</u> | <u>-7%</u> |
| NET POSITION | | | | |
| Invested in capital assets, net | \$ 215,796,822 | \$ 205,711,923 | \$ 10,084,899 | 5% |
| Restricted | 24,340,093 | 25,395,321 | (1,055,228) | -4% |
| Unrestricted | 105,215,878 | 88,226,206 | 16,989,672 | 19% |
| Total net assets | <u>\$ 345,352,793</u> | <u>\$ 319,333,450</u> | <u>\$ 26,019,343</u> | <u>8%</u> |
| Current Ratio (current assets to current liabilities) | <u>2.6</u> | <u>2.0</u> | | |
| Primary Reserve Ratio (expendable net assets to operating expenses) | <u>0.34</u> | <u>0.31</u> | | |

During fiscal 2014, 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 2014 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. The restricted net position decrease is primarily due to a drawing down of a prior construction project cost savings on revenue bond financed project where the savings is restricted for future debt service obligations. Unrestricted net position increased due to the overall improvement in financial performance of the University. Increased carryover balances are recognized in auxiliary enterprise funds, 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 Position

The following table shows a condensed version of Statement of Revenues, Expenses and Changes in Net Position, with operating and non-operating revenues and expenses combined, as of June 30, 2013 and 2012:

| | <u>2014</u> | <u>2013</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenues | | | | |
| Student tuition and fees | \$ 106,491,251 | \$ 100,397,231 | \$ 6,094,020 | 6% |
| Grants, contracts, (operating and nonoperating) | 88,086,475 | 90,629,792 | (2,543,317) | -3% |
| State appropriations (operating and nonoperating) | 129,570,005 | 134,019,974 | (4,449,969) | -3% |
| Sales and services of educational departments | 35,920,553 | 23,606,398 | 12,314,155 | 52% |
| Auxiliary enterprises | 42,560,463 | 46,082,125 | (3,521,662) | -8% |
| Gifts | 7,489,167 | 9,231,214 | (1,742,047) | -19% |
| Other, (operating and nonoperating) | 3,720,852 | 3,060,636 | 660,216 | 22% |
| Total revenues | \$ 413,838,766 | \$ 407,027,370 | \$ 6,811,396 | 2% |
| Expenses | | | | |
| Salaries and wages | \$ 254,955,104 | \$ 241,842,660 | \$ 13,112,444 | 5% |
| Operating expenses | 101,423,382 | 99,504,875 | 1,918,507 | 2% |
| Depreciation expense | 20,714,843 | 19,746,928 | 967,915 | 5% |
| Scholarships and fellowships | 3,115,800 | 4,909,822 | (1,794,022) | -37% |
| Other, (operating and nonoperating) | 6,769,515 | 6,237,939 | 531,576 | 9% |
| Total expenses | \$ 386,978,644 | \$ 372,242,224 | \$ 14,736,420 | 4% |
| Increase (decrease) in net assets | \$ 26,860,122 | \$ 34,785,146 | \$ (7,925,024) | -23% |
| Net Position, Beginning of Year, as restated | \$ 318,492,671 | \$ 284,548,304 | \$ 33,944,367 | 12% |
| Net Position, End of Year | \$ 345,352,793 | \$ 319,333,450 | \$ 26,019,343 | 8% |

Overall revenues increased 2% and expenses increased 4% from 2013 to 2014.

On the revenues side: Student tuition and fees increased 6% primarily due to a small increase in student tuition and fees, as well as a slight enrollment increase. Overall state appropriations decreased 3% due to normal fluctuations between the first and second year of the state's biennium with this revenue source.

Revenues from sales and services of educational departments and auxiliary enterprises fluctuated due to a functional reclassification of the athletic department's activity. The function of the Athletics department was changed from auxiliary enterprise to student services, due to a ND University System policy change.

On the expenses side: increase in operating expenses is primarily due to an average 4% salary increase during fiscal 2014.

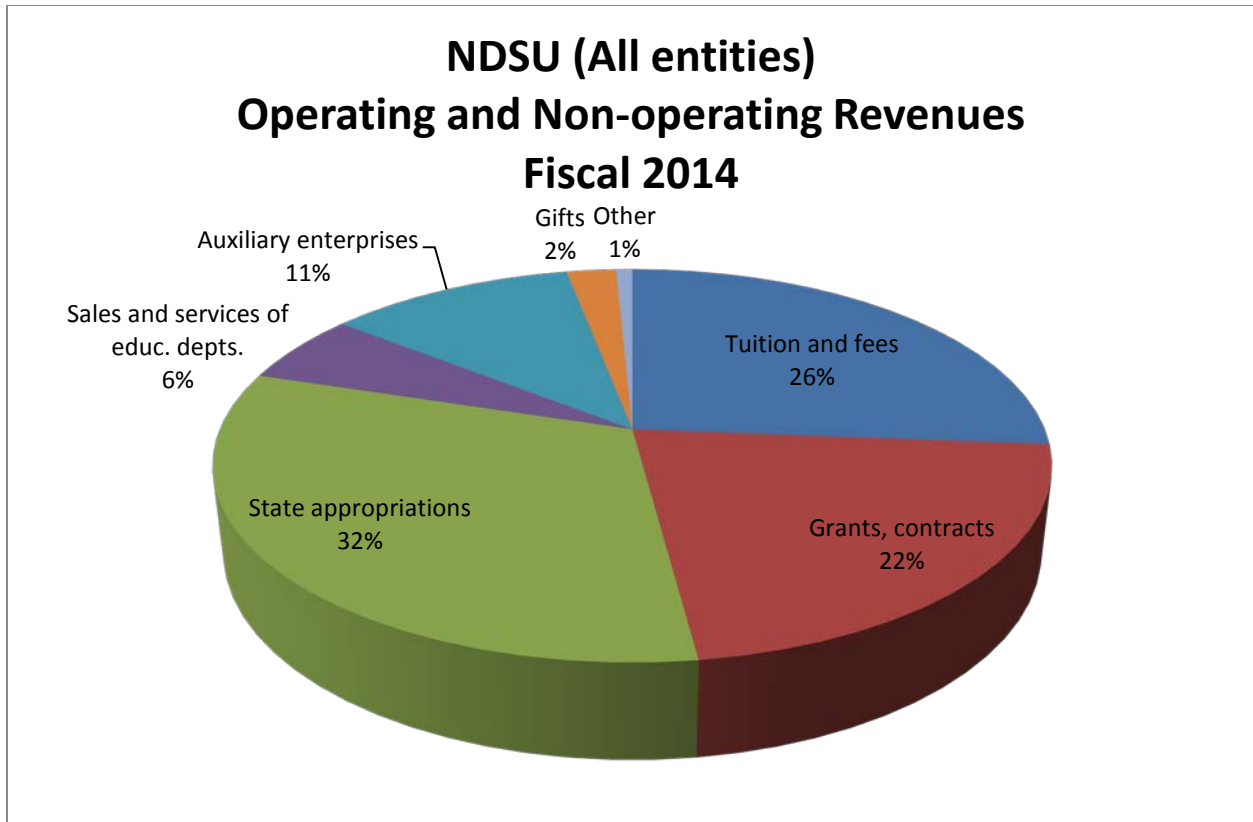
Reduction of gift revenue and scholarship expense: Decreases in gift revenue and scholarships and fellowship expense is primarily due to do a change in accounting on external scholarship funding. In years prior to fiscal 2014, donations where the donor specified the scholarship recipient were classified as gift revenue and scholarship expense. Beginning is fiscal 2014,

Management's Discussion and Analysis

these transactions are handled like a third party payment, where no gift revenue or scholarship expense is recognized.

Graphs

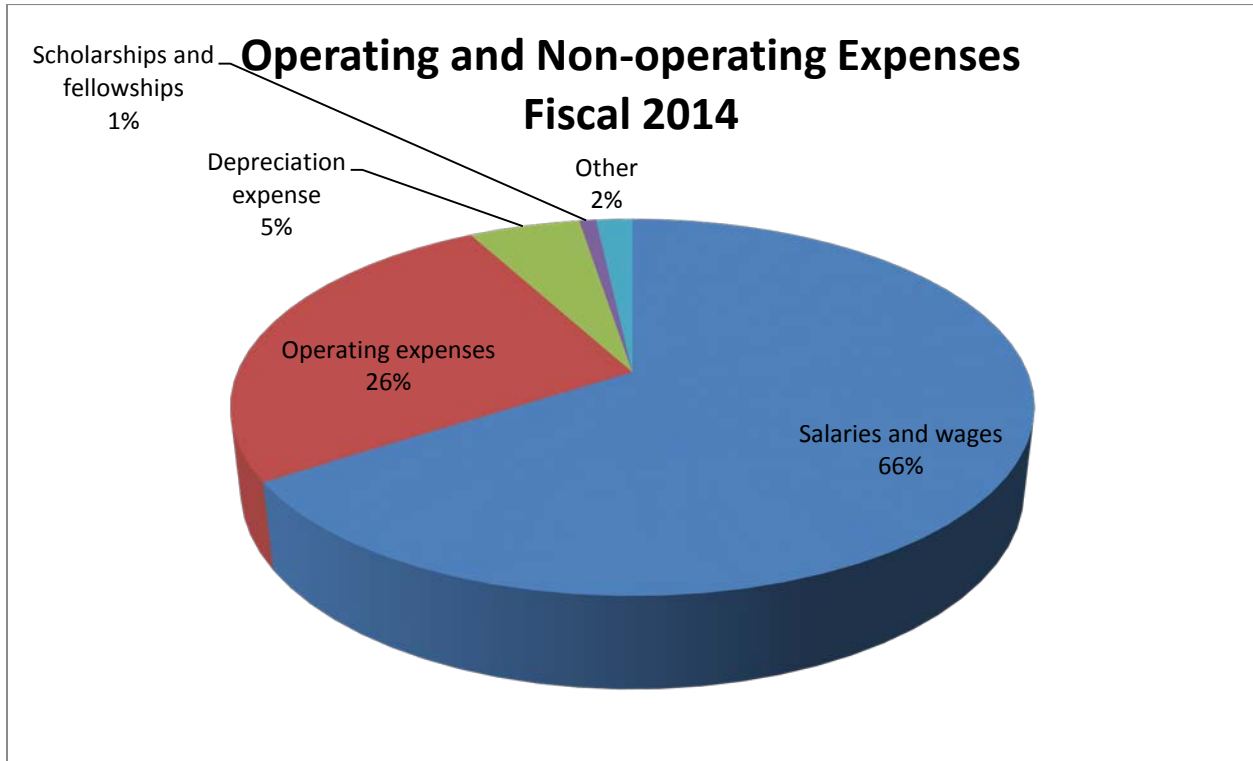
The following graph depicts sources of operating and non-operating revenues for fiscal year 2014:



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

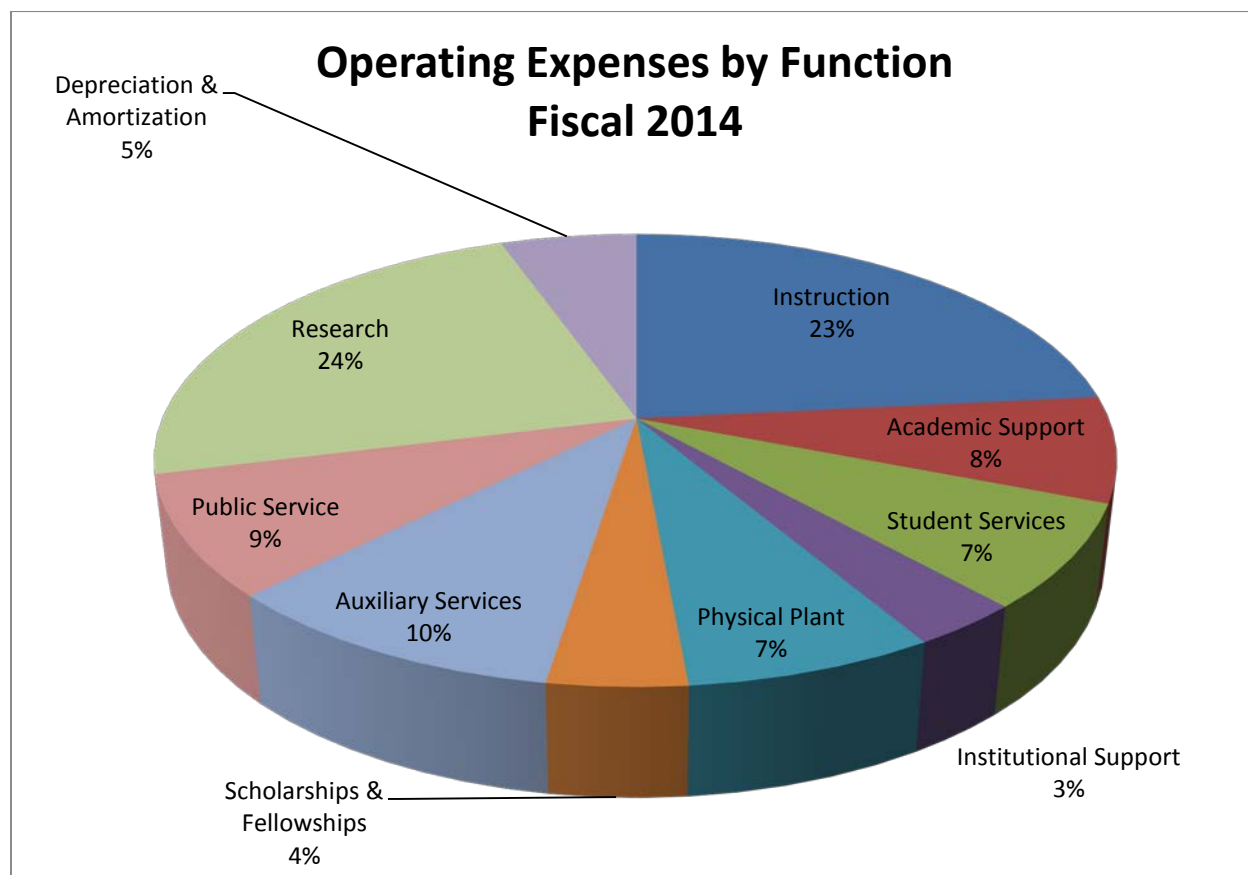
The following graph depicts objects of operating and non-operating expenses for fiscal year 2014:



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 2014:



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

Long-term Debt

Between fiscal years 2010 through fiscal 2015, numerous long-term debt obligations (bonds and leases) were either refinanced or retired early on the scheduled call date. This debt restructuring contributed to continuing University improved financial performance over this period of time and will benefit future periods through lower interest expense. A summary is as follows:

| Facilities | Date | NPV Savings | % of NPV Savings of Refunded Bonds |
|-----------------------------------|-------------|--------------------|---|
| <u>Bond Refunding</u> | | | |
| Living Learning Center | 3/1/2012 | \$ 1,777,922 | 28.7% |
| Barry & Klai Hall | 5/23/2012 | \$ 1,666,713 | 13.5% |
| Bison Court | 2/27/2014 | \$ 1,147,093 | 13.5% |
| Memorial Union | 2/11/2015 | \$ 3,438,084 | 21.3% |
| Wellness Center | 2/11/2015 | \$ 1,488,260 | 17.6% |
| Wellness Center | 2/11/2015 | \$ 371,635 | 16.1% |
| <u>Early Retirement</u> | | | |
| Minard Hall | 4/1/2012 | \$ 1,345,125 | |
| Equine Science Center | 11/4/2013 | \$ 742,763 | |
| Aircraft | 10/7/2013 | \$ 119,413 | |
| <u>Interfund Borrowing</u> | | | |
| Barry Hall Finishing Cost | 8/1/2010 | \$ 222,393 | |

Financial Ratios

| | 2014 | 2013 | 2012 |
|---|-------|-------|-------|
| Current Ratio (current assets to current liabilities) | 2.60 | 2.00 | 2.18 |
| Primary Ratio (expendable net assets to operating expense) | 0.34 | 0.31 | 0.26 |
| Net Income Margin (increase in net assets to total revenue) | 6.49% | 8.57% | 6.53% |
| Viability Ratio (expendable net assets to long-term debt) | 0.95 | 0.78 | 0.61 |
| Higher Learning Commission's Composite Financial Index | 4.25 | 3.90 | 3.20 |

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 2013 and 2012. The NDUS current ratio for fiscal 2014 is unavailable at this time.

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, 2014, is 0.34, which indicates that in an emergency situation, the University could continue its current operations for approximately 17.6 weeks. By comparison, the ND University System's primary reserve ratio was 0.29 and 0.28 for fiscal years 2013 and 2012, respectively. The NDUS primary reserve ratio for fiscal 2014 is unavailable at this time.

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 2014 margin is 6.49%. By comparison, the ND University System's net income margin is 5.5% and 6.9% for fiscal year 2013 and 2012, respectively. The NDUS net margin ratio for fiscal 2014 is unavailable at this time.

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 0.95. By comparison, the ND University

Management's Discussion and Analysis

System's net income margin is 0.9 and 0.8 for fiscal year 2013 and 2012, respectively. The NDUS viability ratio for fiscal 2014 is unavailable at this time.

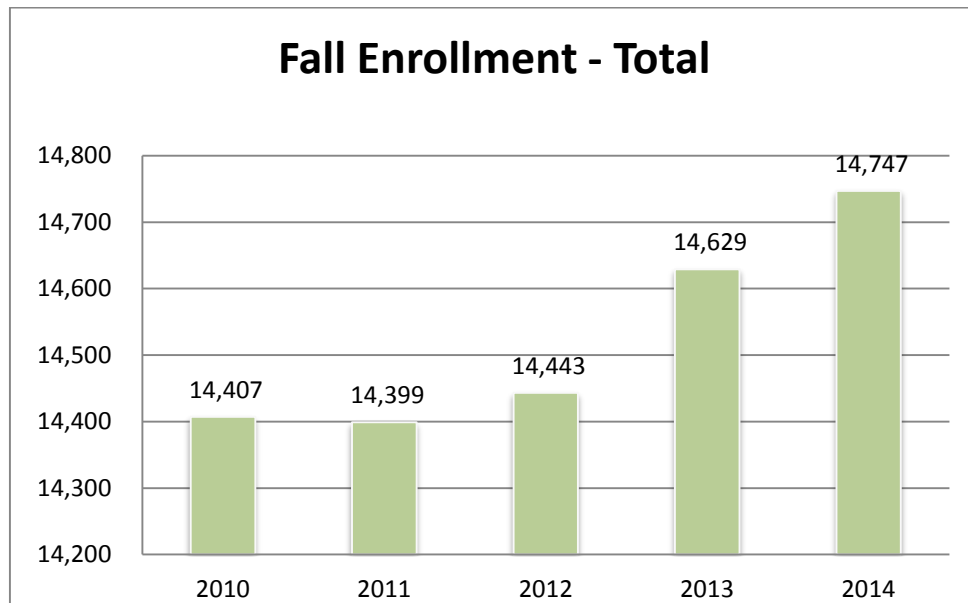
Higher Learning Commission's Composite Financial Index

The Higher Learning Commission (HLC) reviews accredited and candidate institutions' financial information to determine whether an institution operates with integrity in its financial functions. The HLC's uses its Composite Financial Index (CFI) to gauge the overall financial condition of a university. The CFI a weighted index of various financial ratios. A CFI less than 1.0 for two consecutive years is a flag to the HLC that an institution will need a special review to gain or retain its accreditation. NDSU's CFI is 4.25 for fiscal 2014, which is over 4 times the level set by the HLC requiring a review.

Other Highlights

Student Enrollment

NDSU's annual unduplicated degree credit headcount for fall 2014 was 14,747 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:



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. The NDSU Accounting Office is responsible for the contents of this report. 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 or Ramona Adams, Associate Controller, at ramona.adams@ndsu.edu.

North Dakota State University
Statement of Net Position
For Years Ended June 30, 2014 & 2013

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 49,520,102 | \$ 34,321,276 |
| Short-term investments | 15,982,352 | 11,604,743 |
| Accounts receivable, net | 6,482,855 | 5,614,676 |
| Due from other NDUS institutions | 2,393,126 | 1,261,288 |
| Due from component units | 784,179 | 1,228,466 |
| Due from State General Fund | 8,832,731 | 9,148,768 |
| Grants & contracts receivable, net | 15,617,075 | 19,664,958 |
| Inventories | 1,717,420 | 1,734,982 |
| Notes receivable, net | 1,449,465 | 1,477,005 |
| Other assets | 512,737 | 375,103 |
| Total Current Assets | \$ 103,292,042 | \$ 86,431,265 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | \$ 4,339,295 | \$ 3,990,449 |
| Restricted investments | 3,131,125 | 4,845,584 |
| Endowment investments | 412,278 | 366,782 |
| Notes receivable, net | 5,126,102 | 5,237,625 |
| Other long-term investments | 61,242,687 | 65,691,735 |
| Unamortized bond discount and cost of issuance | 97,715 | 2,448,619 |
| Due From Component Units | 613,951 | 933,256 |
| Other noncurrent assets | 765,168 | |
| Capital assets, net | 335,384,315 | 331,886,214 |
| Total Noncurrent Assets | \$ 411,112,636 | \$ 415,400,264 |
| Total Assets | \$ 514,404,678 | \$ 501,831,529 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows from refunding of debts | \$ 1,062,278 | \$ - |
| Total Deferred Outflows | \$ 1,062,278 | \$ - |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 12,630,546 | \$ 17,881,636 |
| Payable to component units | 1,282,726 | |
| Accrued payroll | 10,776,416 | 10,309,141 |
| Unearned revenue | 6,886,911 | 7,598,788 |
| Deposits | 1,653,621 | 1,417,883 |
| Long-term liabilities—current portion: | | |
| Payable to component units | 1,940,753 | 2,164,237 |
| Payable to others | 3,899,065 | 3,848,854 |
| Total Current Liabilities | \$ 39,070,038 | \$ 43,220,539 |
| Noncurrent Liabilities | | |
| Payable to others | 582,560 | 8,767 |
| Long-term liabilities: | | |
| Payable to component units | 35,881,165 | 41,445,666 |
| Payable to others | 94,349,720 | 97,823,107 |
| Total Noncurrent Liabilities | \$ 130,813,445 | \$ 139,277,540 |
| Total Liabilities | \$ 169,883,483 | \$ 182,498,079 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows from Grant Receipts prior to | | |
| meeting timing requirements | \$ 230,680 | \$ - |
| Total Deferred Inflows | \$ 230,680 | \$ - |

Statement of Net Position - Continued on Next Page

Statement of Net Position - Continued

NET POSITION

| | | |
|--|-----------------------|-----------------------|
| Invested in Capital Assets, net of related debt | \$ 215,796,822 | \$ 205,711,923 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellow ships | 414,351 | 368,855 |
| Expendable: | | |
| Scholarships and fellow ships | 153,819 | 207,910 |
| Research | 6,371,440 | 6,551,544 |
| Instructional department uses | 1,616,989 | 1,062,310 |
| Loans | 7,029,996 | 7,032,635 |
| Capital projects | 295,252 | 43,772 |
| Debt service | 8,458,246 | 10,128,295 |
| Unrestricted | 105,215,878 | 88,226,206 |
| Total Net Position | \$ 345,352,793 | \$ 319,333,450 |

North Dakota State University
Statement of Revenues, Expenses, & Other Changes in Net Position
For Years Ended June 30, 2014 & 2013

| | <u>2014</u> | <u>2013</u> |
|---|--------------------------------|--------------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student tuition and fees | \$ 106,491,251 | \$ 100,397,231 |
| Federal Grants and Contracts | 44,726,127 | 46,538,383 |
| State Grants and Contracts | 8,328,337 | 7,259,487 |
| Private Grants & Contracts | 11,880,324 | 10,287,622 |
| Sales and services of educational departments | 35,920,553 | 23,606,398 |
| Auxiliary enterprises | 42,560,463 | 46,082,125 |
| Other Operating Revenue | 861,352 | 953,672 |
| Total operating revenues | <u>\$ 250,768,407</u> | <u>\$ 235,124,918</u> |
| EXPENSES | | |
| Operating expenses: | | |
| Salaries and wages | \$ 254,955,104 | \$ 241,842,660 |
| Operating expenses | 87,101,118 | 83,779,808 |
| Data Processing | 4,695,984 | 5,119,033 |
| Depreciation Expense | 20,714,843 | 19,746,928 |
| Scholarships and fellow ships | 3,115,800 | 4,909,822 |
| Cost of Sales and services | 9,626,280 | 10,606,034 |
| Total operating expenses | <u>\$ 380,209,129</u> | <u>\$ 366,004,285</u> |
| Operating income (loss) | <u>\$ (129,440,722)</u> | <u>\$ (130,879,367)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | \$ 122,486,870 | \$ 127,388,181 |
| Federal Appropriations | 5,790,560 | 5,127,259 |
| Federal grants and contracts | 10,748,270 | 11,157,031 |
| Gifts | 7,489,167 | 9,231,214 |
| Investment income | 2,554,108 | 2,013,833 |
| Interest on capital asset - related debt | (5,521,863) | (5,885,244) |
| Gain/(Loss) on capital assets | (954,381) | (16,020) |
| Insurance Proceeds | 190,479 | 4,404 |
| Tax Revenues | 114,913 | 88,727 |
| Other nonoperating revenues over (under) expenses | (32,530) | (51,533) |
| Net nonoperating revenues | <u>\$ 142,865,593</u> | <u>\$ 149,057,852</u> |
| Income (loss) before capital grants, gifts and transfers | <u>\$ 13,424,871</u> | <u>\$ 18,178,485</u> |
| State appropriations - capital assets | \$ 7,083,135 | \$ 6,631,793 |
| Inter-institutional transfers | 24,746 | - |
| Transfer from Building Authority | (285,487) | (285,142) |
| Capital grants and gifts | 6,612,857 | 10,260,010 |
| Total other revenues (expenses) | <u>\$ 13,435,251</u> | <u>\$ 16,606,661</u> |
| Increase (decrease) in net position | <u>\$ 26,860,122</u> | <u>\$ 34,785,146</u> |
| NET POSITION | | |
| Net Position - beginning of year, as restated | <u>\$ 318,492,671</u> | <u>\$ 284,548,304</u> |
| Net Position - end of year | <u>\$ 345,352,793</u> | <u>\$ 319,333,450</u> |

North Dakota State University
Statement of Cash Flows
For Years Ended June 30, 2014 & 2013

| | <u>2014</u> | <u>2013</u> |
|---|------------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 104,161,601 | \$ 99,593,174 |
| Grants and Contracts | 68,910,754 | 62,874,990 |
| Payments to suppliers | (104,161,511) | (90,318,547) |
| Payments to employees | (255,261,150) | (239,257,057) |
| Payments for scholarships and fellow ships | (3,115,800) | (4,909,822) |
| Loans issued to students | (1,199,468) | (1,187,359) |
| Collection of loans to students | 1,220,400 | 1,088,973 |
| Auxiliary enterprise charges | 42,351,732 | 46,246,843 |
| Sales and services of educational departments | 36,251,078 | 23,126,734 |
| Cash received (paid) on deposits | 177,693 | (35,026) |
| Other receipts (payments) | 39,283 | 967,502 |
| Net cash provided (used) by operating activities | <u>\$ (110,625,388)</u> | <u>\$ (101,809,595)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | \$ 122,444,163 | \$ 134,837,635 |
| Federal appropriations | 5,790,560 | 4,228,545 |
| Grants and gifts received for other than capital purposes | 18,159,048 | 20,388,245 |
| Direct Lending Receipts | 53,187,283 | 53,747,818 |
| Direct Lending Disbursements | (52,888,895) | (53,966,261) |
| Agency fund cash increase (decrease) | 13,162 | (682,729) |
| Tax revenues | 114,913 | 88,727 |
| Net cash provided/(used) by financing activities | <u>\$ 146,820,234</u> | <u>\$ 158,641,980</u> |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from issuance of debt | \$ 8,448,914 | \$ (285,142) |
| Transfers (to)/from Building Authority | (285,487) | (285,142) |
| Capital appropriations | 7,441,879 | 7,083,484 |
| Capital grants and gifts received | 6,739,501 | 8,048,249 |
| Proceeds from sale of capital assets | 1,385,783 | 6,634 |
| Purchases of capital assets | (26,513,903) | (35,433,770) |
| Insurance proceeds | 190,479 | 4,404 |
| Principal paid on capital debt and lease | (8,691,734) | (5,170,599) |
| Deposits with capital debt and lease | (8,255,000) | (5,681,523) |
| Interest paid on capital debt and lease | (5,426,340) | (5,681,523) |
| Net cash provided/(used) by capital and related financing activities | <u>\$ (24,965,908)</u> | <u>\$ (31,428,263)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | \$ 13,181,421 | \$ 9,270,614 |
| Interest on Investments | 2,304,805 | 1,788,743 |
| Purchases of investments | (11,167,492) | (27,000,000) |
| Net cash provided/(used) by investing activities | <u>\$ 4,318,734</u> | <u>\$ (15,940,643)</u> |
| Net increase (decrease) in cash | <u>\$ 15,547,672</u> | <u>\$ 9,463,479</u> |
| Cash - Beginning of year | <u>\$ 38,308,725</u> | <u>\$ 28,845,246</u> |
| Cash - End of year | <u><u>\$ 53,856,397</u></u> | <u><u>\$ 38,308,725</u></u> |

Statement of Cash Flows - Continued on Next Page

Statement of Cash Flows - Continued

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

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------------|-------------------------------|
| Operating Income (loss) | \$ (129,440,722) | \$ (110,772,079) |
| Adjustments: | | |
| Depreciation | 20,714,843 | 18,901,210 |
| Other nonoperating revenues (expenses) | 80,732 | (54,170) |
| Change in assets and liabilities: | | |
| Accounts receivable adjusted for interest receivable | (494,088) | 1,338,315 |
| Intergovernmental receivables | 3,745,287 | 5,946,097 |
| Inventories | 17,562 | (93,627) |
| Notes receivable | 139,063 | (50,128) |
| Other assets | (902,801) | (184,712) |
| Accounts payable and accrued liabilities adjusted for interest payable | (3,875,715) | (1,091,384) |
| Accrued payroll | 696,679 | 330,603 |
| Compensated absences | (772,044) | (1,354,243) |
| Deferred revenue | (711,877) | 954,360 |
| Deposits | 177,693 | 47,521 |
| Net cash provided (used) by operating activities | <u>\$ (110,625,388)</u> | <u>\$ (86,082,237)</u> |

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

| | | |
|---|--------------------------|--------------------------|
| Assets acquired through capital lease | \$ 263,523 | \$ 340,516 |
| Expenses paid by capital lease | 138,009 | - |
| Gifts of capital assets | 170,673 | 39,000 |
| Net Increase (Decrease) in value of investments | 264,429 | 13,000 |
| Total non cash transactions | <u>\$ 836,634</u> | <u>\$ 392,516</u> |

Notes to Financial Statements

JUNE 30, 2014

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

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

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. 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 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 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

Notes to Financial Statements

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, 2014, Tri-College University had a net position of approximately \$649,498 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, 2014 were:

NDSU: Alliance for Arts & Humanities

RSVP Enterprise

NDSU 4H Foundation

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.

Notes to Financial Statements

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.

Unrestricted Net Position

Unrestricted net position includes 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 each institution.

Restricted Assets

The University System, 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 System 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 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 System. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the University System, 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.

Notes to Financial Statements

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 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

Notes to Financial Statements

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 position restricted for debt service" on the Statement of Net Position.

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

- Land Improvements 10 – 35 years
- Infrastructure 20 – 60 years
- Buildings 10 – 50 years
- Equipment 3 – 20 years
- Internally developed software 2 – 10 years
- Purchased software 3 – 5 years

Notes to Financial Statements

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 position. 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 Position

Net position is classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Restricted Net Position 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 Position is 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.

Restatement of Beginning Net Position

| | Primary Institution |
|---|------------------------|
| Fiscal 2014 | |
| Net Position, Beginning of the year, as previously reported | \$ 319,333,450 |
| Prior Period Adjustments: | |
| Change in Account Method - GASB 63, 65 | (1,699,606) |
| Correct of error - Central Stores | 858,829 |
| Net Position, Beginning of the year, as previously reported | <u>\$ 318,492,673</u> |

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.

New Accounting Pronouncements

In fiscal year 2014, the North Dakota State University adopted GASB No. 65, Items Previously Reported as Assets and Liabilities. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. Additionally, the statement requires costs related to the issuance of debt to be recognized as an expense in the period incurred rather than recorded as a deferred charge and amortized. The statement was adopted retroactively and resulted in a restatement of prior period net position of \$1.7 million.

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.

In January 2013, the GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This statement is effective for periods beginning after December 15, 2013.

In April, 2013, the GASB issued Statement No. 70, "Accounting and Financial Guarantees." This statement is effective for periods beginning after June 15, 2013.

Notes to Financial Statements

In November 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68." This statement is effective for periods beginning after June 15, 2014.

The effect GASB statements 68, 69, 70 and 71 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 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.

Notes to Financial Statements

DEPOSITS

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

| Deposits | Carrying Amount | Bank Balance | Uninsured Bank Balance (A) | (B) | (C) |
|---------------------------------------|-----------------------|-----------------|-------------------------------|---------------|-------|
| Total Cash Deposits at BND | 47,615,535 | 53,707,487 | 53,707,487 | | |
| CDs at BND | 74,700,000 | 74,700,000 | 74,700,000 | | |
| Total Cash Deposits at Other | 6,160,987 | 5,444,190 | | 4,968,165 | |
| CDs at Other | 150,000 | 150,000 | | | |
| Total Deposits | 128,626,522 | 134,001,677 | 128,407,487 | 4,968,165 | - |
| Cash on Hand/Petty Cash | 82,875 | | | | |
| Less amts reported as investments | (74,850,000) | | | | |
| Cash & Cash Equ-SNA | <u>53,859,397</u> | | | | |

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to it. The System 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, 2014, \$358.8 million of the System's bank balance of \$361.6 million was exposed to custodial credit risk as follows:

| | |
|---|---------------|
| Uninsured and uncollateralized | \$352,803,186 |
| Uninsured and collateral held by pledging bank not in system's name | \$ 5,952,930 |

Notes to Financial Statements

Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2014, as shown below:

| | | Maturities from June 30 | | | |
|--|---------------|-------------------------|-------------------|---------------------|--------------------|
| Account | Market Value | Less than 1 year | 1 year to 5 years | 6 years to 10 years | More than 10 years |
| Debt Securities: | | | | | |
| US Treasuries | | | | | |
| US Strips | 68,422 | | 68,422 | | |
| Mutual Bond Funds | | | | | |
| Money market mutual funds | 4,131,933 | 4,131,933 | | | |
| Total Securities w/ Maturities | \$ 4,200,355 | \$ 4,131,933 | \$ 68,422 | \$ - | - |
| Other Invest Types: | | | | | |
| Stocks | \$ 1,620,595 | | | | |
| Equity Mutual Funds | 42,436 | | | | |
| BND Cd's Credit risked as investments but reported as deposits | 74,700,000 | | | | |
| Non-BND Cd's Credit risked as investments but reported as deposits | 150,000 | | | | |
| Investment in Real Estate | | | | | |
| Alternate Investments | 55,057 | | | | |
| Total reported on SNA | \$ 80,768,443 | | | | |

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

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, 2013, the University's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

| Investment Type | Market | Credit Quality Rating | |
|---------------------------|--------------|-----------------------|-----------|
| | Value | AAA | A |
| | | | |
| Debt Securities: | | | |
| Mutual Bond Funds | | | |
| Money market mutual funds | 4,131,933 | 4,119,424 | 12,509 |
| | | | |
| Total | \$ 4,131,933 | \$ 4,119,424 | \$ 12,509 |

Note 3 – Receivables

Receivables at June 30, 2014 consist of the following amounts:

| | Current | NonCurrent | Total |
|--|---------------|--------------|---------------|
| Student & General | \$ 9,964,357 | | \$ 17,330,117 |
| Interest Receivable | 251,667 | | 471,826 |
| Allow ance for doubtful Accts | (3,733,169) | | (5,814,029) |
| Total Accounts Receivable, Net | \$ 6,482,855 | | \$ 6,482,855 |
| Grants & Contracts Receivable | \$ 13,391,188 | | \$ 30,432,318 |
| Due from Other State Agencies | 2,225,887 | | 2,225,887 |
| Total Grants & Contracts Receivable, Net | \$ 15,617,075 | | \$ 15,617,075 |
| Student | \$ 1,675,761 | \$ 5,941,000 | \$ 7,616,761 |
| Allow ance for Doubtful Notes | (226,296) | (814,898) | (1,041,194) |
| Total Notes Receivable, Net | \$ 1,449,465 | \$ 5,126,102 | \$ 6,575,567 |

Note 4 – Endowment Funds

The endowment funds reported herein are institutional funds under the terms of the gift instrument and are not wholly expendable by the institution. NDCC Section 59-21 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to the investment of endowments governed by a gift instrument. NDUS SBHE policy 810 stipulates endowment funds shall be invested according to the intent of the donor provided such intent is consistent

Notes to Financial Statements

with applicable laws. Absent terms expressing donor intent in a gift instrument, NDUS institution officers initially shall deposit the funds in institution accounts at the Bank of North Dakota. Thereafter, the funds may be invested according to NDCC 59-21. Subject to the intent of the donor, NDUS institution officers are delegated authority to manage and invest these institutional funds as provided by UPMIFA. 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.

Note 5 – Capital & Intangible Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|-----------------------|----------------------|----------------------|------------------------|-----------------------|
| Land | \$ 7,343,932 | | | \$ 281,000 | \$ 7,624,932 |
| Construction in Progress | 38,586,427 | \$ 6,403,425 | | \$ (29,165,111) | 15,824,741 |
| Total non-depreciable capital assets | \$ 45,930,359 | \$ 6,403,425 | \$ - | \$ (28,884,111) | \$ 23,449,673 |
| Land Improvements/infrastructure | \$ 49,375,887 | \$ 861,230 | | | \$ 50,237,117 |
| Buildings | 369,418,293 | 9,546,654 | \$ 1,206,147 | \$ 24,934,170 | 402,692,970 |
| Furniture, fixtures, and equipment | 124,122,081 | 11,205,550 | \$ 14,251,891 | \$ 3,949,941 | 125,025,681 |
| Intangibles: | | | | | |
| Computer Software | 763,526 | 149,808 | 5,074 | | 908,260 |
| Other | 642,410 | | | | 642,410 |
| Library Materials | 17,155,729 | 301,783 | 105,187 | | 17,352,325 |
| Total Depreciable Capital Assets | \$ 561,477,926 | \$ 22,065,025 | \$ 15,568,299 | \$ 28,884,111 | \$ 596,858,763 |
| Less accumulated depreciation and amortization | | | | | |
| Land Improvements/infrastructure | \$ 32,182,845 | \$ 1,265,498 | | | \$ 33,448,343 |
| Buildings | 158,751,190 | 10,569,191 | \$ 821,602 | | 168,498,779 |
| Furniture, fixtures, and equipment | 71,061,847 | 7,841,814 | 10,382,720 | | 68,520,941 |
| Intangibles: | | | | | |
| Computer Software | 575,008 | 103,707 | 3,284 | | 675,431 |
| Other | 123,029 | 32,120 | | | 155,149 |
| Library Materials | 12,828,152 | 902,513 | 105,187 | | 13,625,478 |
| Total Accumulated depreciation and amortization | \$ 275,522,071 | \$ 20,714,843 | \$ 11,312,793 | \$ - | \$ 284,924,121 |
| Total Depreciable Capital Assets, net | \$ 285,955,855 | \$ 1,350,182 | \$ 4,255,506 | \$ 28,884,111 | \$ 311,934,642 |
| Capital Assets, net | \$ 331,886,214 | \$ 7,753,607 | \$ 4,255,506 | \$ - | \$ 335,384,315 |

Notes to Financial Statements

Construction in progress for the year ended June 30, 2014 was as follows:

| Project | Amount Authorized | Expended (CIP Balance) | Expended (non-capitalized) | Authorized Balance |
|---------------------------------------|--------------------------|---------------------------|-------------------------------|--------------------------|
| <u>Budiling Projects:</u> | | | | |
| STEM Classroom Building | \$ 29,367,709 | \$ 1,687,062 | \$ - | 27,680,647 |
| Aquatic Center | 0 | 202,671 | | -202,671 |
| ND 4-H Camp | 2,600,000 | 133,355 | | 2,466,645 |
| Langdon Agronomy Lab | 1,225,000 | 85,866 | | 1,139,134 |
| Hettinger Agronomy Lab | 1,800,000 | 264,620 | | 1,535,380 |
| Carrington Agronomy Lab | 2,500,000 | 308,494 | | 2,191,506 |
| Central Grasslands Agronomy Lab | 400,000 | 33,345 | | 366,655 |
| Bison Sports Arena/SHAC | 41,000,000 | 3,960,875 | | 37,039,125 |
| Ag Research Greenhouse Phase III | 9,494,581 | 9,148,453 | | 346,128 |
| Construction in Progress Total | <u>88,387,290</u> | <u>15,824,741</u> | <u>0</u> | <u>72,562,549</u> |

Notes to Financial Statements

Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2014:

| | |
|--------------------------------------|----------------------|
| Accounts Payable | \$ 10,804,366 |
| Due to other state agencies | 534,256 |
| Sales Tax Payable | 696 |
| Accrued Interest | 1,037,582 |
| Contractor Payable/Retainage | 253,647 |
| Total Payables & Accrued Liabilities | <u>\$ 12,630,547</u> |

Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2014 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 | \$ 77,330,000 | \$ 8,340,000 | \$ 10,400,000 | \$ 75,270,000 | \$ 2,265,000 | \$ 73,005,000 |
| Due to CU - Bonds Payable | 20,940,000 | | 965,000 | \$ 19,975,000 | 1,015,000 | 18,960,000 |
| Capital Leases | 7,683,007 | 323,967 | 925,199 | \$ 7,081,775 | 701,127 | 6,380,648 |
| Due to CU - Capital Leases | 22,669,902 | | 4,822,984 | \$ 17,846,918 | 925,752 | 16,921,166 |
| Special Assessments | 2,170,582 | 77,565 | 67,460 | \$ 2,180,687 | 71,439 | 2,109,248 |
| Compensated Absences | 14,488,372 | | 772,045 | \$ 13,716,327 | 861,502 | 12,854,825 |
| Total | <u>\$ 145,281,864</u> | <u>\$ 8,741,532</u> | <u>\$ 17,952,688</u> | <u>\$ 136,070,707</u> | <u>\$ 5,839,820</u> | <u>\$ 130,230,887</u> |

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 Position, Restricted for Debt Service.

The summary of outstanding obligations of the campuses, as of June 30, 2014 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 Amount of Issue | Bonds Outstanding 6/30/13 | Refunding Bonds | Bond Principal paid this Fiscal Year | Bonds Outstanding 6/30/14 |
|--|---------------|---------------|--------------------------|---------------------------|-----------------|--------------------------------------|---------------------------|
| Housing and Auxiliary System Revenue Bonds: | | | | | | | |
| 2004 Bison Court Replacement | 8/1/2004 | 4/1/2034 | \$ 10,350,000 | \$ 8,505,000 | \$ (8,255,000) | \$ 250,000 | \$ - |
| 2005 Memorial Union Addition | 8/1/2005 | 4/1/2035 | 18,700,000 | 16,615,000 | | 465,000 | 16,150,000 |
| 2006A Wellness Center Addition | 5/1/2006 | 4/1/2036 | 9,990,000 | 8,680,000 | | 225,000 | 8,455,000 |
| 2006B Wellness Center Refunding(Series 1999) | 5/1/2006 | 4/1/2029 | 2,845,000 | 2,420,000 | | 105,000 | 2,315,000 |
| 2007 Living Learning Center East/Ceres Hall | 7/31/2007 | 4/1/2037 | 12,000,000 | 10,950,000 | | 240,000 | 10,710,000 |
| 2009 Niskanen/West Dining Center | 7/29/2009 | 4/1/2039 | 26,245,000 | 24,750,000 | | 525,000 | 24,225,000 |
| 2012A Refunding (Series 2002 LLC Bonds) | 3/1/2012 | 4/1/2027 | 5,730,000 | 5,410,000 | | 335,000 | 5,075,000 |
| 2014A Refunding (Series 2004 Bison Court) | 4/1/2014 | 4/1/2034 | 8,340,000 | | 8,340,000 | | 8,340,000 |
| Subtotal - NDSU | | | \$ 94,200,000 | \$ 77,330,000 | \$ 85,000 | \$ 2,145,000 | \$ 75,270,000 |
| NDSU Research & Tech Park, Inc. | | | | | | | |
| Series 2007A, Research 1 (Refunding Series 2000) | 1/25/2007 | 4/1/2022 | \$ 4,535,000 | \$ 3,850,000 | | \$ 360,000 | \$ 3,490,000 |
| Series 2007B, Research 2 (Refunding Series 2002) | 1/25/2007 | 4/1/2032 | 17,715,000 | 17,090,000 | | 605,000 | 16,485,000 |
| Subtotal - NDSU Research & Tech Park, Inc. | | | \$ 22,250,000 | \$ 20,940,000 | | \$ 965,000 | \$ 19,975,000 |
| GRAND TOTAL BONDS PAYABLE | | | \$ 122,950,000 | \$ 98,270,000 | \$ 85,000 | \$ 3,110,000 | \$ 95,245,000 |

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

North Dakota State University issued \$8.505 million of Housing and Auxiliary Revenue Refunding Bonds (Series 2014) with an interest rate of 2.0 percent to 4.0 percent. The bonds were used to recall \$8.505 million of outstanding Series 2004 Housing and Auxiliary Revenue bonds. The bonds were refunded to reduce total debt service payments over the next 20 years by approximately \$1.6 million.

Notes to Financial Statements

Scheduled Maturities of Bonds Payable

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|----------------------|-----------------------|
| 2015 | \$ 3,280,000 | \$ 4,150,327 | \$ 7,430,327 |
| 2016 | 3,430,000 | 4,009,235 | 7,439,235 |
| 2017 | 3,565,000 | 3,887,784 | 7,452,784 |
| 2018 | 3,690,000 | 3,754,579 | 7,444,579 |
| 2019 | 3,825,000 | 3,611,718 | 7,436,718 |
| 2020 - 2024 | 20,510,000 | 15,626,336 | 36,136,336 |
| 2025 - 2029 | 22,540,000 | 11,136,955 | 33,676,955 |
| 2030 - 2034 | 22,550,000 | 6,024,535 | 28,574,535 |
| 2035 - 2039 | 11,855,000 | 1,544,750 | 13,399,750 |
| | <u>\$ 95,245,000</u> | <u>\$ 53,746,219</u> | <u>\$ 148,991,219</u> |

Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2014.

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 2014 is as follows:

| LEASE | Lease Start | | Terms (in Months) | PRINCIPAL BALANCE DUE 7/1/2013 | PRINCIPAL NEW LEASES | PRINCIPAL PAID | PRINCIPAL BALANCE DUE 6/30/2014 |
|--|----------------|--|----------------------|--------------------------------------|-------------------------|---------------------|---------------------------------------|
| NUMBER | Date | DESCRIPTION | | | | | |
| Capital Leases | | | | | | | |
| 0527 | 11/12/08 | Wells Fargo-Athletic Field Turf | 96 | 275,318 | | 63,461 | \$ 211,857 |
| 0533 | 08/15/09 | Cityscapes- Security Office Fit-up loan | 58 | 49,974 | | 49,974 | - |
| 0534 | 10/01/09 | Cityscapes- Bookstore Fit-up loan | 56 | 39,195 | | 39,195 | - |
| 0573 | 06/24/12 | Bank of America-Energy Savings Performance Contract | 168 | 6,854,458 | | 426,732 | 6,427,727 |
| 0544 | 03/10/10 | Wells Fargo-File Servers | 45 | 4,156 | | 4,156 | 0 |
| 0554 | 06/10/10 | Wells Fargo-Maxxum 125 MFD Loader | 49 | 16,288 | | 7,982 | 8,305 |
| 0567 | 12/17/10 | Wells Fargo-Analytical Instruments | 49 | 40,542 | | 40,542 | - |
| 0568 | 12/21/10 | Wells Fargo-New Case 440 Skidsteer | 49 | 9,345 | | 4,579 | 4,766 |
| 0571 | 06/02/11 | Wells Fargo-John Deere 444 K 2011 Loader | 39 | 29,101 | | 14,220 | 14,881 |
| 0572 | 03/11/11 | Wells Fargo-2007 Case IH MX245 MFD Tractor | 53 | 29,338 | | 9,320 | 20,018 |
| 0578 | 12/30/11 | Wells Fargo-Almaco Model SPC2-B Combine | 25 | 79,894 | | 79,894 | - |
| 0584 | 03/15/12 | Wells Fargo-Truax FLEXII Drill, Model FLXII-812RD | 60 | 17,146 | | 4,041 | 13,106 |
| 0585 | 06/30/12 | Wells Fargo-Zurn 150 Demo Plot Combine | 49 | 62,949 | | 14,581 | 48,368 |
| 0587 | 07/01/12 | Wells Fargo-New Holland Long Reach Cab | 49 | 84,226 | | 27,091 | 57,135 |
| 0588 | 08/15/12 | Wells Fargo-GM Gas Analyzer | 24 | 11,318 | | 11,318 | - |
| 0590 | 09/15/12 | Wells Fargo-Zurn 150 Plot Combine | 48 | 79,757 | | 18,506 | 61,251 |
| 0598 | 09/01/13 | Wells Fargo-Audio Visual Equipment | 36 | | \$ 128,223 | 43,941 | 84,282 |
| 0601 | 10/17/13 | Liberty Business Systems - Lanier Production Printer Pro 1107E | 24 | | 41,247 | 13,461 | 27,786 |
| 0608 | 07/15/14 | Wells Fargo-Two Skid Steers, N-HL L220; Blow Hard Bunk Clean | 60 | | 62,882 | | 62,882 |
| 0609 | 05/21/14 | Wells Fargo-Case IH 2WD 85C Farmall Tractor | 45 | | 39,410 | | 39,410 |
| 0611 | 01/13/14 | Wells Fargo-Audio Visual Equipment | 30 | | 52,205 | | 52,205 |
| | | | | <u>\$ 7,683,007</u> | <u>\$ 323,967</u> | <u>\$ 872,994</u> | <u>\$ 7,133,980</u> |
| Due to Component Units - Capital Leases | | | | | | | |
| 0433 | 01/01/03 | NDSU Development Fnd-Equine Science Center | 282 | \$ 2,885,000 | | \$ 2,885,000 | \$ - |
| 0465 | 10/10/05 | NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF | 180 | 2,063,622 | | 233,910 | 1,829,713 |
| 0486 | 06/28/07 | GE Capital for NDSU Dev Fnd-Aircraft | 120 | 1,121,280 | | 1,121,280 | - |
| 0476 | 11/29/07 | NDSU Development Foundation-Renaissance Hall | 303 | 5,210,000 | | 205,000 | 5,005,000 |
| 0586 | 11/29/07 | US Bank for NDSU Development Foundation-Barry & Klai Hall | 295 | 11,390,000 | | 430,000 | 10,960,000 |
| | | | | <u>\$ 22,669,902</u> | <u>\$ -</u> | <u>\$ 4,875,190</u> | <u>\$ 17,794,713</u> |
| | | | | <u>\$ 30,352,908</u> | <u>\$ 323,967</u> | <u>\$ 5,748,183</u> | <u>\$ 24,928,693</u> |
| | | Grand Total | | | | | |

Notes to Financial Statements

Scheduled Maturities of Capital Leases & Due to Component Units

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2015 | \$ 1,626,879 | \$ 867,631 | \$ 2,494,510 |
| 2016 | 1,646,700 | 811,526 | 2,458,226 |
| 2017 | 1,585,869 | 754,207 | 2,340,076 |
| 2018 | 1,500,230 | 698,601 | 2,198,831 |
| 2019 | 1,546,607 | 645,474 | 2,192,081 |
| 2020 - 2024 | 7,006,602 | 2,441,498 | 9,448,100 |
| 2025 - 2029 | 5,185,806 | 1,344,124 | 6,529,930 |
| 2030 - 2034 | 3,090,000 | 617,754 | 3,707,754 |
| 2035 - 2039 | 1,740,000 | 106,400 | 1,846,400 |
| | <u>\$ 24,928,693</u> | <u>\$ 8,287,215</u> | <u>\$ 33,215,908</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> |
|--------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 71,439 | \$ 110,279 | \$ 181,718 |
| 2016 | 74,369 | 106,540 | 180,909 |
| 2017 | 78,246 | 102,653 | 180,899 |
| 2018 | 78,584 | 98,561 | 177,145 |
| 2019 | 85,076 | 94,555 | 179,631 |
| 2020 - 2024 | 445,488 | 406,300 | 851,788 |
| 2025 - 2029 | 558,450 | 283,055 | 841,505 |
| 2030 - 2034 | 632,973 | 134,375 | 767,348 |
| 2035 - 2039 | 156,062 | 9,399 | 165,461 |
| | <u>\$ 2,180,687</u> | <u>\$ 1,345,717</u> | <u>\$ 3,526,404</u> |

Compensated Absences

The compensated absences liability as of June 30, 2014 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, 2014 and 2013 totaled \$13,716,327 and \$14,488,372, 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)

NDPERS is a cost-sharing multiple-employer defined benefit pension plan. The plan provides retirement, disability and death benefits for those employees who participate in this plan. 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, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 equal to 2.0 percent of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7 percent of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction"

Notes to Financial Statements

agreement. The NDUS has implemented a salary reduction agreement and is currently contributing the employees share. The NDUS is required to contribute 7.12 percent of each participant's salary as the employer's share. In addition to the 7.12 percent employer contribution the employer is required to contribute 1.14 percent of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. NDSU's required and actual contributions to NDPERS for the fiscal years ended June 30, 2014 and 2013 were \$3.7 million and \$3.2 million, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

TIAA-CREF Retirement Plan

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. Beginning, January 1, 2014 contributions in class I and II increased from 3.5 percent to 4.5 percent for participant contributions and from 11.5 percent to 12.5 percent for institution contributions for employees with zero to ten years of service. Contributions for employees with more than ten years of service increased from 4.0 percent to 5.0 percent for participant contributions for employee contributions and from 12.0 percent to 13.0 percent for institution contributions.

Notes to Financial Statements

| Employment Class | Years of Service | Contributions by the Participant | Contributions by the Institution |
|---|------------------|----------------------------------|----------------------------------|
| I | 0 thru 10 | 4.5% | 12.5% |
| | over 10 | 5.0% | 13.0% |
| II | 0 thru 2 | 3.5% | 7.5% |
| | 3 thru 10 | 4.5% | 12.5% |
| | over 10 | 5.0% | 13.0% |
| 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% |

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 North Dakota University System has no further liability once annual contributions are made. NDSU contributed \$14.6 million and \$12.7 million to TIAA-CREF during the fiscal years ending June 30, 2014 and 2013, respectively.

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.

There are approximately 882 retired North Dakota University System employees receiving these benefits and 3,362 active employees with retiree health credit. The actuarially determined required employer contribution of \$1.130 million for the year ended June 30, 2014 is 1.14 percent of the covered payroll. North Dakota State University's actual and required contributions for the fiscal years ending June 30, 2014 and 2013 were \$358,393 and \$347,092, respectively.

As of June 30, 2014 there was \$92.0 million in net position available for benefits under the state retiree health insurance credit plan. The actuarially accrued liability was \$116.6 million and the underfunded actuarially accrued liability was \$38.7 million at June 30, 2014.

Early Retirement Agreements

When early retirement is deemed to be in the mutual benefit of an employee and the University System, the Board has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, the chancellor, vice chancellors, other system office professional staff, presidents, executive deans, vice president, provosts, deans, and other officers responsible for a major unit of an institution who report directly to a president, vice president, provost, or executive dean who

Notes to Financial Statements

are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2014, one employee elected early retirement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100 percent 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, 2014, no NDSU 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 institution of premiums is negotiable. Total cost to NDSU for these termination benefits will be \$7,848, over the term of the contracts. Amounts payable to employees at June 30, 2014 for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$219,302, assuming health insurance premium increases ranging from 7 percent to 15 percent and a discount rate of 0.05 percent.

Under the Phased Retirement Option, retirement is over a period of time. The percentage of workload each year is negotiated. The campus may pay all or any part of the retirement contributions on the current salary or any part of the individual's salary until the individual terminates all employment. During the fiscal year ended June 30, 2014, one NDSU employee participated in this option. Total cost to the institutions for these termination benefits will be \$69,839 over the term of the contract. Amounts payable to employees at June 30, 2014 for outstanding contract buyouts and future health and life premiums adjusted for projected health insurance premium increases and discounted to the present were \$281,293, assuming health insurance premium increases ranging from 7 percent to 15 percent and a discount rate of 0.05 percent.

Note 14 - Construction Commitments and Financing

The University has contracted for the construction of various projects as of June 30, 2014. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Notes to Financial Statements

| Project | Contracts Awarded | Expended Through June 30, 2013 | Total Cost To Complete | Funding for remaining costs | | | |
|---------------------------------------|----------------------|-----------------------------------|---------------------------|-----------------------------|------------------|------------------------|------------------|
| | | | | Federal Sources | State Sources | Institutional Funds | Other Sources |
| Minard Hall | \$ 20,720,531 | \$ 20,487,200 | \$ 233,331 | | \$ 233,331 | | |
| Research 1 Expansion | 7,603,721 | 7,555,360 | 48,361 | | \$ 48,361 | | |
| Bison Sports Arena (SHAC) | 36,486,942 | 3,753,407 | 32,733,535 | | | | \$ 32,733,535 |
| STEM Bldg | 2,038,255 | 1,543,449 | 494,806 | | 494,806 | | |
| Dinan Hall Bathroom | 1,000,265 | 140,708 | 859,557 | | | 859,557 | |
| Stockbridge Hall South Bathroom | 836,900 | 53,852 | 783,048 | | | \$ 783,048 | |
| FLC Food Production Lab | 679,124 | 44,027 | 635,097 | | 159,689 | | 475,408 |
| Memorial Union Freight Elevator | 240,312 | 133,395 | 106,917 | | | 106,917 | |
| Stevens Hall Remodel | 235,247 | 104,748 | 130,499 | | | 130,499 | |
| AES Research Greenhouse-Phase III | 9,416,729 | 9,284,684 | 132,045 | | | | 132,045 |
| Agronomy Lab - Carrington REC | 2,264,141 | 308,494 | 1,955,647 | | 1,955,647 | | |
| Agronomy Lab - Hettinger REC | 1,565,878 | 264,620 | 1,301,258 | | 1,301,258 | | |
| Agronomy Lab - Langdon REC | 1,097,033 | 85,866 | 1,011,167 | | 1,011,167 | | |
| Agronomy Lab - Central Grasslands REC | 400,000 | 33,346 | 366,654 | | 366,654 | | |
| 4-H Camp | 2,109,518 | 133,355 | 1,976,163 | | 861,741 | | 1,114,422 |
| NCI Feed Mill | 926,971 | 207,068 | 719,903 | | 7,334 | | 712,569 |
| Grand Totals | \$ 87,621,567 | \$ 44,133,580 | \$ 43,487,988 | \$ - | \$ 6,439,988 | \$ 1,880,021 | \$ 35,167,979 |

Note 15 - Component Unit Transactions

MAJOR COMPONENT UNITS

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. (RTP) leases 40 acres of land for \$1 per year for the next seventy-five years.

On November 1, 2000, 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 \$20.5 million.

On January 25, 2007, the city of Fargo, on behalf of the RTP, issued \$4.735 million of Series 2007A (Research 1) and \$18.1 million 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 reserve fund surety bond) relating to bonds for both Series 2007A and 2007B bonds. During the year ended June 30, 2011, the Series 2000 bonds were repaid in full with the funds held in escrow from the Series 2007A bond

Notes to Financial Statements

refinancing. During the fiscal year ended June 30, 2012, the Series 2002 bonds were repaid in full with the funds held in escrow from the Series 2007A bond refinancing.

The audited financial statements of RTP for fiscal year 2014 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

On July 1, 2002, NDSU and the RTP entered into an agreement for cooperation and assistance between entities. The agreement is an annual agreement, which automatically extends for one-year periods unless cancelled by either party to the agreement.

During fiscal 2013, NDSU and the RTP entered into renewed agreements, whereby NDSU leases the Research Buildings #1 and #2 through June 30, 2022. During fiscal year 2014, total annual rent of \$2,154,906 was paid by NDSU for these two buildings. NDSU directly pays the utility costs under these agreements. The annual rent will be re-adjusted by mutual agreement every two years. These agreements are subject to funding and legislative appropriations.

Other Transactions

During fiscal 2014 NDSU made other payments to the RTP that were unrelated to the building leases for Research #1 & #2. These payments consist of the following: 1) \$30,521 for an operating lease for lab space and miscellaneous charges in the RTP's Technology Incubator Building, 2) \$110,540 for grant sub-awards, 3) \$70,000 for event sponsorship. Also, during fiscal year 2014, the RTP paid NDSU a total of \$33,628 as reimbursement of NDSU operating expenses.

NDSU Development Foundation

NDSU Equine Center

Effective January 1, 2003, NDSU and the NDSU Development Foundation (NDSUDF) 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 is to pay rent to the NDSUDF 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 NDSUDF.

On November 4, 2013, the 10 year call date on the original bonds, NDSU retired the debt early with a final payment of \$2.949 million. Upon retirement of the debt, the ownership of the property was transferred to NDSU and the agreement is terminated.

Aircraft

Effective June 28, 2007, NDSU and the NDSUDF entered into a \$2.348 million, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU is to pay rent to the NDSUDF 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.

On October 21, 2013, NDSU and the NDSUDF sold the aircraft to a third party for \$1.35 million and used the proceeds to retire the outstanding debt (\$1.089 million; including interest to date). With this asset sale and debt retirement, the agreement is terminated.

Fargodome Lease and Improvements

In fiscal year 2006, the NDSUDF financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the

Notes to Financial Statements

sale of revenue bonds issued by Cass County. The NDSUDF 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 NDSUDF 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 NDSUDF incident to the lease, less any contributions received by the NDSUDF for the project. Under this agreement in fiscal year 2014, the NDSUDF paid the debt service and other fees on behalf of NDSU in the amount of \$336,436.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSUDF. NDSU has also recorded a capital asset and a capital lease payable, reflected as "Due to Component Units" by NDSU, of \$1.830 million as of June 30, 2014. Since the NDSUDF 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 NDSUDF 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 NDSUDF transferred nearly the entire ownership of the building to 650 NP Avenue, LLC and Kilbourne 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 NDSUDF, permanent financing was put in place on December 17, 2010, with the issuance of \$5.65 million 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 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 NDSUDF incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the NDSUDF \$431,359 in fiscal year 2014 under this agreement. As of June 30, 2014 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$5.005 million.

Barry Hall Business Building and Klai Hall Architecture Building

Effective November 28, 2007, NDSU and the NDSUDF entered into lease agreements for two buildings in downtown Fargo, formerly known as the "Pioneer Mutual Building" and "Lincoln Mutual building". The NDSUDF 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 NDSUDF 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 NDSUDF is responsible for the real estate taxes, insurance,

Notes to Financial Statements

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 NDSUDF. 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 NDSUDF incident to ownership of the property.

In May 2012, the NDSUDF refinanced the original bonds issued in November 2007. As a result new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds, including the portion originally planned to be paid from the collections of pledges. During fiscal year 2014, NDSU paid \$819,098 to the NDSUDF under the new leases for debt service, property taxes and insurance on Barry Hall & Klai Hall. During fiscal year 2014, the NDSUDF paid \$319,305 to NDSU from the collection of pledges. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2014 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$10.96 million and the portion payable by the NDSUDF to NDSU for the collection of pledges is recognized by NDSU as a current & non-current "Due from Component Units" for \$913,951.

Other Transactions

NDSU also has agreements in place with the NDSUDF 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 by NDSU under these agreements as of June 30, 2014 totaled \$500,000. In addition, the NDSUDF may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

NDSUDF fiscal year end is December 31, NDSU year end is June 30. Timing differences in amounts may occur between entity financial statements, due to different year end dates.

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, 2014 is \$25,800. There were no on-behalf payments made as contributions to a pension plan for which the System is not legally responsible.

Note 17 – Functional Expense Classification

The System reports operating expenses using the "natural classification" on the Statement of Revenues, Expenses and Changes in Net Position. Operating expenses for the year ending June 30, 2014, using the "functional classification" are presented below:

Notes to Financial Statements

Operating Expenses

| | |
|-----------------------------|-----------------------|
| Instruction | \$ 88,965,338 |
| Academic Support | 28,625,917 |
| Student Services | 28,056,145 |
| Institutional Support | 12,042,311 |
| Physical Plant | 26,946,246 |
| Scholarships & Fellowships | 14,973,711 |
| Auxiliary Services | 38,132,258 |
| Public Service | 32,568,246 |
| Research | 89,184,114 |
| Depreciation & Amortization | 20,714,843 |
| Total | <u>\$ 380,209,129</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, 2014, amounted to \$2.2 million.

Future Minimum Lease Payments at June 30, 2014:

| <u>Fiscal Year</u> | <u>Future Minimum Lease Payments</u> |
|--------------------|--|
| 2015 | \$ 2,023,606 |
| 2016 | 1,673,914 |
| 2017 | 1,326,916 |
| 2018 | 1,046,188 |
| 2019 | 272,241 |
| 2020 - 2024 | 114,533 |
| Total | <u>\$ 6,457,398</u> |

Note 19 – Contingencies

Amounts received and expended by North Dakota State University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management,

Notes to Financial Statements

audit adjustments, if any, will not have a significant effect on the financial position of the University System.

In the normal course of its activities, North Dakota State 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 NDSU. 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 and 2009-11 biennia for the renovation and an addition to Minard Hall. Original authorized funding for the project is \$18.0 million: \$17.5 million 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 million due to the collapse. The State Board of Higher Education approved a \$4.874 million 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.

In 2014, a contractor made a claim against NDSU for additional compensation which it believes is owed by NDSU. The contractor rejected the initial sum of \$137,000 and proceeded with contractually mandated mediation. During mediation, the contractor demanded an additional sum of \$450,000 but the claim was not settle during mediation. In August 2014, the contractor filed a lawsuit against NDSU, the North Dakota Board of Higher Education and the State of North Dakota for unspecified damages.

As of June 30, 2014, total costs charged to the Minard Hall project are \$22.2 million. This total is comprised of the following: \$17.9 million for construction costs on Phase I, II, III (\$18.0 million legislative authority) and \$4.2 million for collapse related costs (\$4.9 million budget section authority). As of the reporting date f, 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

Notes to Financial Statements

following are programs established by the state to address some of these risks and loss exposures.

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 years.

Risk Management Fund

The Risk Management Fund (N.D.C.C. ch. 32-12.2) was established by the 1995 North Dakota Legislature as a result of a court decision that eliminated the State's sovereign immunity. The Risk Management Division of the Office of Management and Budget administers the Fund.

The Fund provides liability coverage and defense of a claim/lawsuit brought against the state of North Dakota, its agencies and employees acting within the scope of employment. The coverage amounts are \$250,000 per person and \$1,000,000 per occurrence.

The Fund is a risk retention pool that is funded by contributions paid by all State agencies. The contributions are calculated by an actuary based on various factors, including the agency's loss history and number of full-time employees.

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 \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Risk Management Workers Compensation Program

The Risk Management Workers Compensation Program (N.D.C.C. § 65-04-03.1) was established by the 2001 North Dakota Legislature and created a single workers compensation account for all state agencies. This cross agency program is designed to save premium dollars through a deductible program while enhancing recovery of injured employees. The program is administered by the Risk Management Division of the Office of Management and Budget.

Workers compensation provides money and medical benefits to an employee who has an injury as a result of an accident, injury or occupational disease on-the-job. The question of negligence or fault is usually not at issue.

Workforce Safety & Insurance (WSI) continues to determine the level of compensation an injured worker and his or her care provider are entitled to receive; and will determine experience rates, dividends, assessments, and the premiums payable by State entities for workers compensation coverage. Effective July 1, 2001, workers compensation premiums are paid to the Risk Management Division rather than to WSI.

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, 2014 is \$324,318.

Note 22– Deficit Net Position Balances > \$100,000

As of June 30, 2014 the University had a negative net position balance in excess of \$100,000.

Fund 28100 – Minard Hall Collapse Related Costs - Deficit balance at June 30, 2014 was \$4,764,181.

These are costs related to the additional project authorization of \$4.874 million approved by the SBHE. The costs include collapse related change orders, department relocation, forensic and legal costs. In November 2011, the SBHE authorized NDSU to carry a deficit fund balance and authorized NDSU to take any necessary action, including litigation, to seek recovery of damages, expenses, and costs resulting from the collapse, with any recovery being used to offset the ongoing costs of Minard Hall or, if the project is complete at the time of recovery, to reimburse the State of ND for the costs of the project to the extent that recovery dollars are available, following consultation with the Chancellor. Recovery efforts are ongoing.

Note 23 – Subsequent Events

On November 20, 2014, NDSU received authorization from the North Dakota State Board of Higher Education to issue housing and auxiliary facilities revenue refunding bonds, not to exceed \$24.0 million with an interest rate not to exceed 5 percent, provided the present value of the debt service savings is not less than 3 percent. The bonds are expected to be issued in the first quarter of 2015.

North Dakota State University
Supplementary Information - Component Units
Statement of Financial Position
For Year Ended June 30, 2014

FASB BASIS

| | Major Component Units | | Non-Major Component Units | |
|--|------------------------------|-------------------------|----------------------------------|--------------------------|
| | NDSU | NDSU Research | NDSU | NDSU Team |
| | Development | & Technology | Research | Makers Club |
| | Foundation | Park | Foundation | Makers Club |
| | December 31, 2013 | June 30, 2014 | June 30, 2014 | December 31, 2013 |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 6,409,856 | \$ 2,363,145 | \$ 174,392 | \$ 3,040,471 |
| Short-term investments | 11,929,616 | | | |
| Accounts receivable, net | 4,859,803 | 67,481 | | 79,744 |
| Unconditional promises to give, net | | 2,500 | | 71,265 |
| Inventories | 57,332 | | | 3,241 |
| Other assets | 1,227,545 | 24,762 | 8,106 | 2,969 |
| Total Current Assets | \$ 24,484,152 | \$ 2,457,888 | \$ 182,498 | \$ 3,197,690 |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | \$ 16,599,934 | | | |
| Investments, net of current portion | \$ 121,357,627 | | | \$ 2,042,624 |
| Real estate held for investment, net | 41,932,421 | | | |
| Endowment Investments | | | 5,899,427 | |
| Contracts for deed and notes receivable, net | 1,131,546 | | | |
| Long term pledges receivable | 17,392,223 | \$ 8,000 | | |
| Notes Receivable, net | | 6,490,000 | | |
| Other noncurrent assets | 558,813 | 368,876 | 150 | |
| Capital assets, net | 3,527,935 | 24,523,086 | | 9,909 |
| Total Noncurrent Assets | \$ 202,500,499 | \$ 31,389,962 | \$ 5,899,577 | \$ 2,052,533 |
| Total Assets | \$ 226,984,651 | \$ 33,847,850 | \$ 6,082,075 | \$ 5,250,223 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 681,707 | \$ 200,847 | \$ 51,939 | \$ 125,761 |
| Payable to Primary Institution | 1,861,862 | | | 3,072,395 |
| Accrued payroll | | 10,151 | | |
| Current portion of split-interest agreements | 840,553 | | | |
| Deferred revenue | 6,500 | | | 9,650 |
| Other current liabilities | 256,313 | | | 72,058 |
| Long-term liabilities—current portion | 1,325,959 | 1,094,633 | | |
| Total Current Liabilities | \$ 4,972,894 | \$ 1,305,631 | \$ 51,939 | \$ 3,279,864 |
| Noncurrent Liabilities | | | | |
| Long-term portion of split-interest agreements | 6,378,359 | | | |
| Other noncurrent liabilities | | | | |
| Long-term liabilities | 18,612,340 | 25,987,847 | | 218,869 |
| Total Noncurrent Liabilities | \$ 24,990,699 | \$ 25,987,847 | \$ - | \$ 218,869 |
| Total Liabilities | \$ 29,963,593 | \$ 27,293,478 | \$ 51,939 | \$ 3,498,733 |
| NET POSITION | | | | |
| Temporarily restricted | \$ 59,938,114 | \$ 10,500 | | |
| Permanently restricted | 98,276,054 | | | |
| Unrestricted | 38,806,890 | 6,543,872 | \$ 6,036,807 | \$ 1,751,490 |
| Total Net Position | \$ 197,021,058 | \$ 6,554,372 | \$ 6,036,807 | \$ 1,751,490 |

North Dakota State University
Supplementary Information - Component Units
Statement of Activities
For Year Ended June 30, 2014

FASB BASIS

| | Major Component Units | | Non-Major Component Units | |
|--|--|--|---|----------------------------------|
| | NDSU Development Foundation | NDSU Research & Technology Park | NDSU Research Foundation | NDSU Team Makers Club |
| | December 31, 2013 | June 30, 2014 | June 30, 2014 | December 31, 2013 |
| Support and revenue | | | | |
| Gifts and contributions | \$ 15,432,984 | \$ 385,890 | | \$ 3,431,410 |
| Investment Income | 8,974,004 | | \$ 108,179 | 316,882 |
| Net realized and unrealized gains (losses) on investments | 14,746,954 | | 937,086 | |
| Program and event income | | 113,000 | | 425,519 |
| Other Income | 1,088,981 | 2,869,854 | 2,025,473 | 58,338 |
| Total support and revenue | \$ 40,242,923 | \$ 3,368,744 | \$ 3,070,738 | \$ 4,232,149 |
| Expenses | | | | |
| Program Services | \$ 8,439,762 | \$ 1,028,980 | \$ - | \$ 3,180,891 |
| Supporting Services | 8,067,994 | 1,648,965 | 2,003,064 | 439,607 |
| Fund raising expense | | | | 71,335 |
| Total expenses | \$ 16,507,756 | \$ 2,677,945 | \$ 2,003,064 | \$ 3,691,833 |
| Change in Split-Interest Agreement | \$ (720,035) | \$ - | \$ - | \$ - |
| Change in Net Assets | \$ 23,015,132 | \$ 690,799 | \$ 1,067,674 | \$ 540,316 |
| Net Position, Beginning of Year | \$ 174,005,926 | \$ 5,863,573 | \$ 4,969,133 | \$ 1,211,174 |
| Net Position, End of Year | \$ 197,021,058 | \$ 6,554,372 | \$ 6,036,807 | \$ 1,751,490 |