

**NDSU**

NORTH DAKOTA STATE UNIVERSITY

**Annual Financial Report**  
**June 30, 2018**

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Prepared by the North Dakota State University Accounting Office

# ***North Dakota State University***

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

### ***JUNE 30, 2018***

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, 2018. 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 two major legally separate foundations that are affiliated with NDSU are presented in the Supplementary Information section of this report. The figures in this section were extracted from the foundation's audited reports; however, as with NDSU's basic financial statements and notes, the supplementary information presented in this report must be considered not audited.

## ***Background Information***

North Dakota State University is distinctive as a student-focused, land-grant, research university, that provides affordable access to an excellent education at a top-ranked institution that combines teaching and research in a rich learning environment, educating future leaders who will create solutions to national and global challenges that will shape a better world. NDSU is listed in the National Science Foundation's top 100 in several areas, including agricultural sciences, social sciences, physical sciences, chemistry, psychology and computer sciences. NDSU is fully accredited as an institution by the Higher Learning Commission. The main campus is located in Fargo, N.D., with Extension Service and Experiment Station Research Centers located all across the state.

# *Management's Discussion and Analysis*

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## **Mission**

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

## **Vision**

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

## ***Financial Highlights***

NDSU's overall financial standing continues to be sound with total assets of \$702 million and total liabilities of \$263 million, and a net position total of \$462 million (an increase of \$6 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, the 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.

## Management's Discussion and Analysis

### Statement of Net Position

The following table shows a condensed Statement of Net Position at June 30, 2018 and 2017:

	2018	2017	Dollar Change	Percent Change
<b>ASSETS</b>				
Current assets	\$ 100,218,142	\$ 103,940,296	\$ (3,722,154)	-4%
Other non-current assets	114,509,062	80,563,837	33,945,225	42%
Capital assets, net	487,480,181	466,766,399	20,713,782	4%
Total assets	<u>\$ 702,207,385</u>	<u>\$ 651,270,532</u>	<u>\$ 50,936,853</u>	<u>8%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 27,449,125</u>	<u>\$ 12,132,571</u>	<u>\$ 15,316,554</u>	<u>126%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 42,883,091	\$ 46,959,065	\$ (4,075,974)	-9%
Noncurrent liabilities	220,371,342	154,865,996	65,505,346	42%
Total liabilities	<u>\$ 263,254,433</u>	<u>\$ 201,825,061</u>	<u>\$ 61,429,372</u>	<u>30%</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 3,892,152</u>	<u>\$ 3,308,327</u>	<u>\$ 583,825</u>	<u>18%</u>
<b>NET POSITION</b>				
Invested in capital assets, net	\$ 356,976,862	\$ 355,980,725	\$ 996,137	0%
Restricted	19,615,003	19,012,412	602,591	3%
Unrestricted	85,918,060	83,276,578	2,641,482	3%
Total net position	<u>\$ 462,509,925</u>	<u>\$ 458,269,715</u>	<u>\$ 4,240,210</u>	<u>1%</u>
Current Ratio (current assets to current liabilities)	<u>2.34</u>	<u>2.21</u>		
Primary Reserve Ratio (expendable net assets to operating expenses)	<u>0.26</u>	<u>0.24</u>		

The increase in other non-current assets and non-current liabilities in fiscal 2018 is due to the issuance of revenue bonds for the construction of a new residence hall (Cater Hall) and replacement of University Village. These projects were in-progress as of June 30, 2018, so the unexpended portion of the bond proceeds are held in other non-current assets.

No other Statement of Net Position line items showed a noteworthy change.

## 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, 2018 and 2017:

	2018	2017	Dollar Change	Percent Change
<b>Revenues</b>				
Student tuition and fees	\$ 120,082,759	\$ 120,304,338	\$ (221,579)	0%
Grants, contracts, (operating and nonoperating)	83,610,495	103,706,509	(20,096,014)	-19%
State appropriations (operating and nonoperating)	114,314,538	130,968,947	(16,654,409)	-13%
Sales and services of educational departments	32,691,045	33,495,287	(804,242)	-2%
Auxiliary enterprises	45,258,273	43,999,768	1,258,505	3%
Gifts	15,039,830	13,685,854	1,353,976	10%
Other, (operating and nonoperating)	4,411,160	3,154,353	1,256,807	40%
<b>Total revenues</b>	<b>\$ 415,408,100</b>	<b>\$ 449,315,056</b>	<b>\$ (33,906,956)</b>	<b>-8%</b>
<b>Expenses</b>				
Salaries and wages	\$ 273,804,949	\$ 284,840,699	\$ (11,035,750)	-4%
Operating expenses	98,759,149	100,464,122	(1,704,973)	-2%
Depreciation expense	25,425,451	24,514,315	911,136	4%
Scholarships and fellowships	6,958,150	6,632,512	325,638	5%
Other, (operating and nonoperating)	4,198,810	4,090,426	108,384	3%
<b>Total expenses</b>	<b>\$ 409,146,509</b>	<b>\$ 420,542,074</b>	<b>\$ (11,395,565)</b>	<b>-3%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 6,261,591</b>	<b>\$ 28,772,982</b>	<b>\$ (22,511,391)</b>	<b>-78%</b>
<b>Net Position, Beginning of Year, as restated</b>	<b>\$ 456,248,334</b>	<b>\$ 429,496,733</b>	<b>\$ 26,751,601</b>	<b>6%</b>
<b>Net Position, End of Year</b>	<b>\$ 462,509,925</b>	<b>\$ 458,269,715</b>	<b>\$ 4,240,210</b>	<b>1%</b>

Overall, revenues decreased 8% and expenses decreased 3% from 2017 to 2018. Only changes greater than 6% will be discussed.

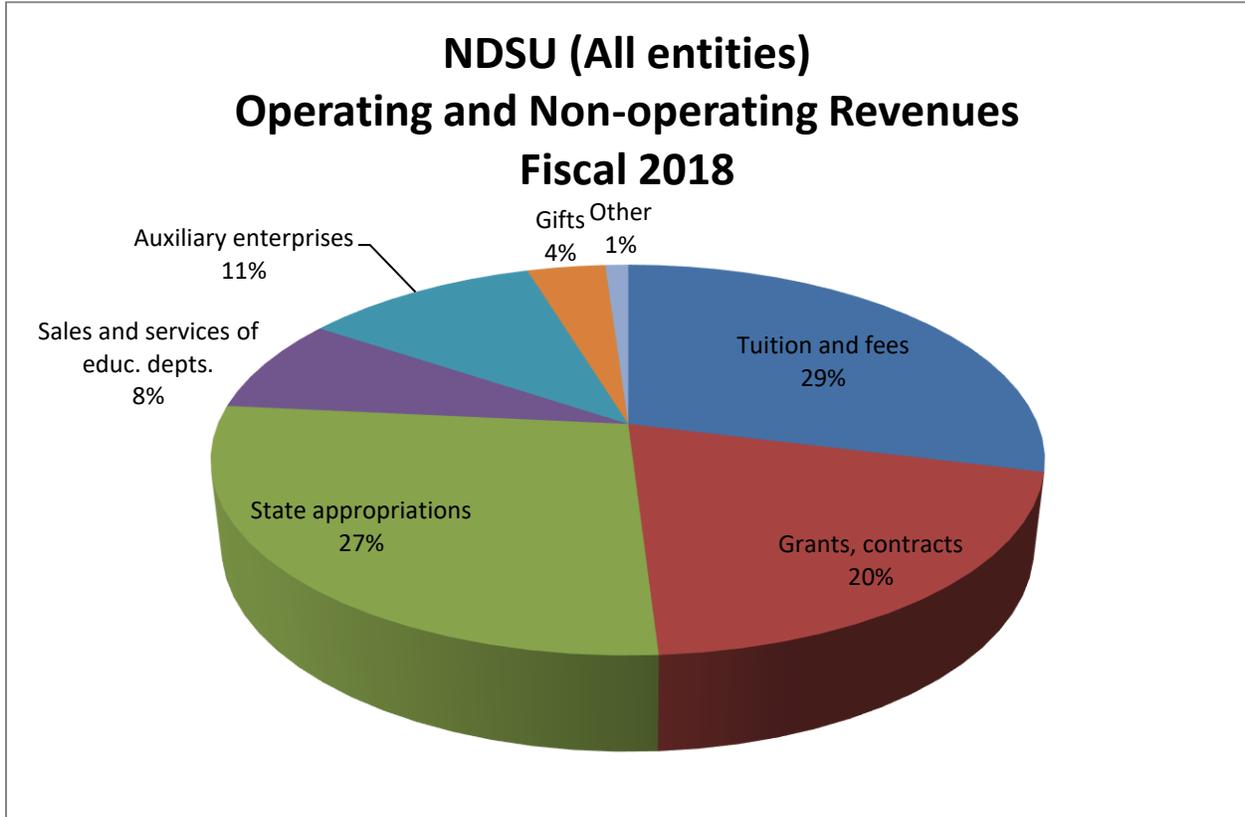
The grant and contract revenue decrease is related to a capital construction project completed in fiscal 2017. State appropriations decreased 13% due to reduced state general fund support for operations. Gift revenues continue to increase because of increased support from the NDSU Foundation & Alumni Association. Other non-operating revenues went up during fiscal 2018 primarily due to an increase in investment income.

### Graphs

## Management's Discussion and Analysis

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The following graph depicts sources of operating and non-operating revenues for fiscal year 2018:

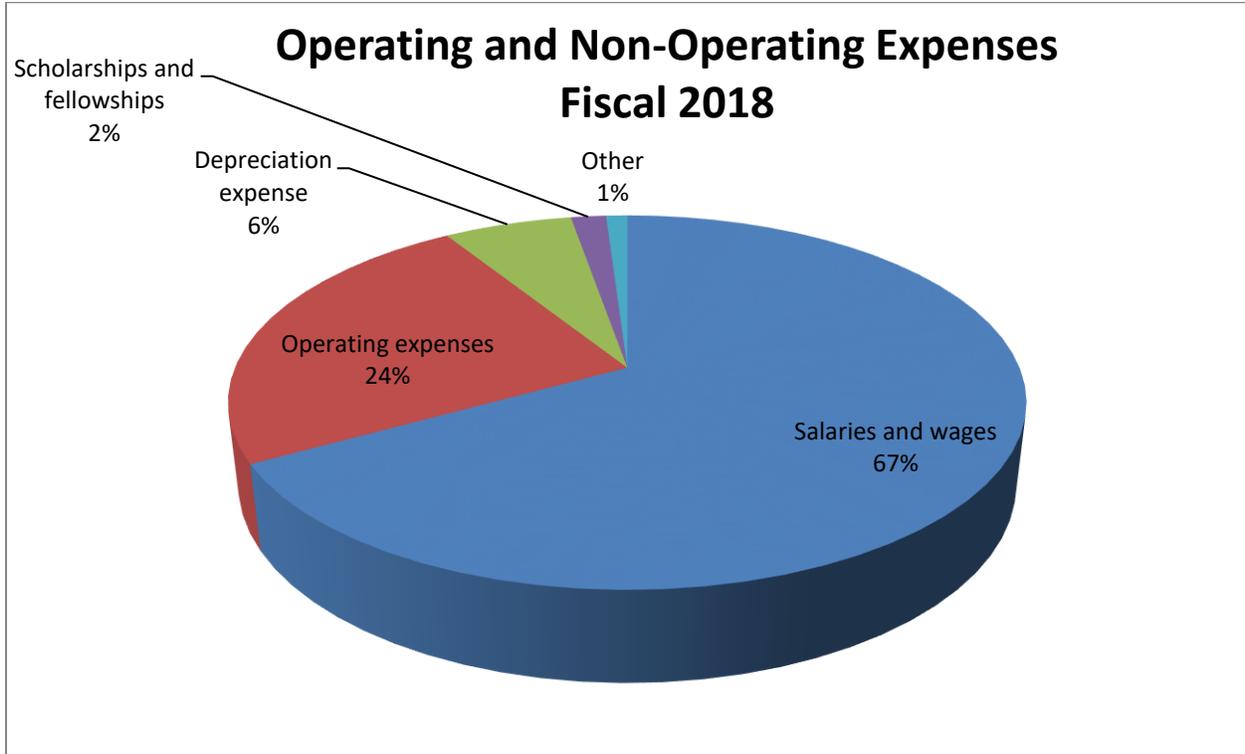


The activities of all NDSU entities are combined in this graph, including the Agriculture Experiment Station, and other similar separately appropriated agencies.

## Management's Discussion and Analysis

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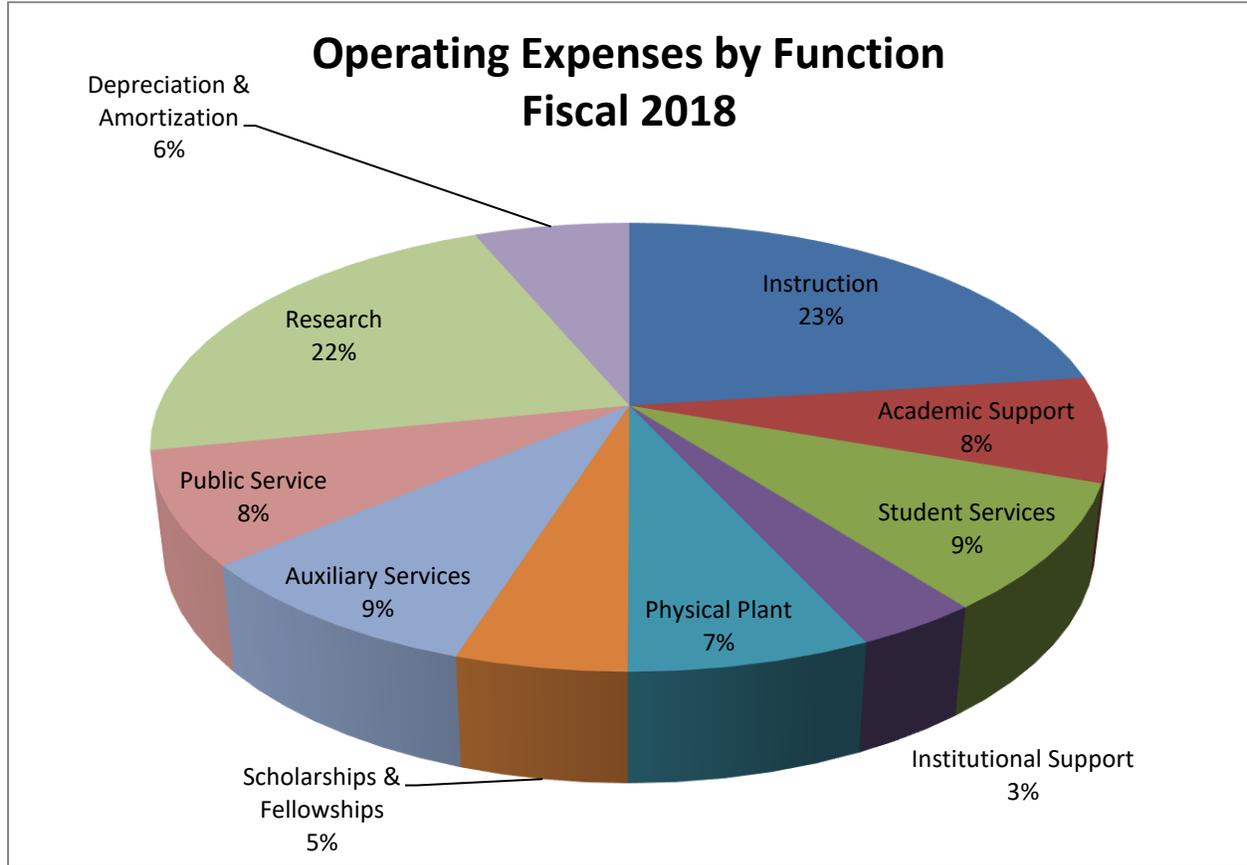
The following graph depicts objects of operating and non-operating expenses for fiscal year 2018:



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 2018:



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

## Management's Discussion and Analysis

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### Long-term Debt

Between fiscal years 2010 through fiscal 2018, 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. There were two bonds refunded in August 2016 and one bond refunded in July 2017. A summary is as follows:

<b>Facilities</b>	<b>Date</b>	<b>NPV Savings</b>	<b>% of NPV Savings of Refunded Bonds</b>
<b><u>Bond Refunding</u></b>			
Living Learning Center-West	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%
R1 & R2	7/27/2016	\$ 891,082	5.0%
Living Learning Center East	8/2/2016	\$ 1,862,671	18.3%
Niskanen Apts/West Dining Ctr	7/26/2017	\$ 2,940,243	13.0%
<b><u>Early Retirement</u></b>			
Minard Hall	4/1/2012	\$ 1,345,125	
Equine Science Center	11/4/2013	\$ 742,763	
Aircraft	10/7/2013	\$ 119,413	
<b><u>Interfund Borrowing</u></b>			
Barry Hall Finishing Cost	8/1/2010	\$ 222,393	

## Financial Ratios

	2018	2017	2016
Current Ratio (current assets to current liabilities)	2.34	2.21	2.15
Primary Ratio (expendable net position to operating expense)	0.26	0.24	0.26
Net Income Margin (increase in net position to total revenue)	1.51%	6.40%	9.65%
Viability Ratio (expendable net position to long-term debt)	0.65	0.88	0.88
Higher Learning Commission's Composite Financial Index	3.06	2.29	2.71

### 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.

### 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, 2018, is 0.26, which indicates that in an emergency situation, the University could continue its current operations for approximately 12.5 weeks.

### 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 2018 margin is 1.51%. A positive margin is considered good.

### 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 stayed about the same from fiscal 2016 to 2017, but decreased in fiscal 2018 due to the issuance of \$48 million of revenue bonds for the construction a new residence hall (Cater Hall) and replacement of a portion of University Village (student housing).

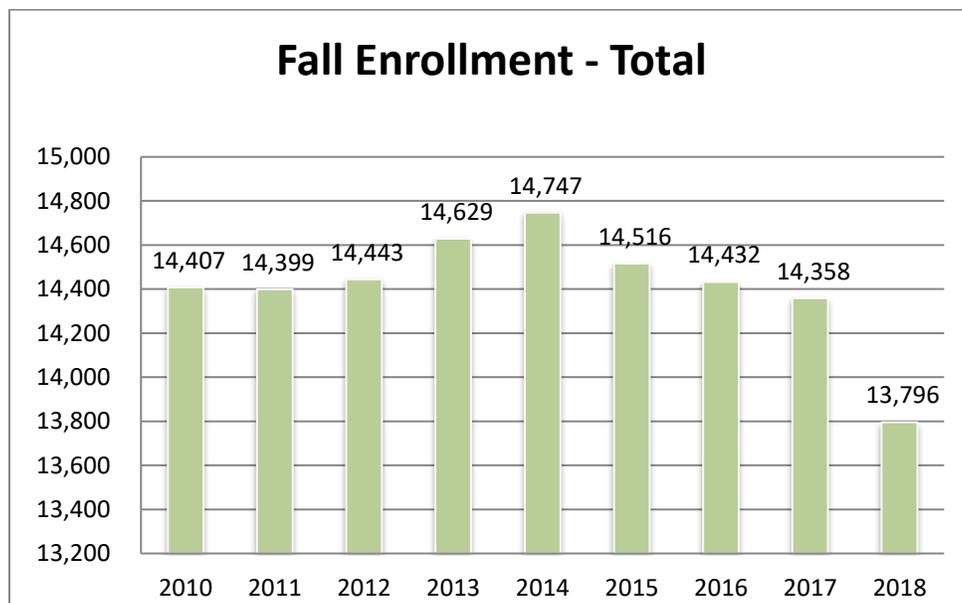
### **Higher Learning Commission's Composite Financial Index**

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 well above the 1.0 benchmark at 3.06 for fiscal 2018, which is well over the level set by the HLC requiring a review.

## Other Highlights

### Student Enrollment

NDSU's fall headcount enrollment for fall 2018 was 13,796 students, which represents 30% of the student enrollment for the entire ND University system. NDSU's fall headcount enrollment for the last nine fall terms is shown below:



### 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](mailto:gary.wawers@ndsu.edu), or Lisa Ripplinger, at [lisa.m.riplinger@ndsu.edu](mailto:lisa.m.riplinger@ndsu.edu), or [Travis.aho.1@ndsu.edu](mailto:Travis.aho.1@ndsu.edu).

**North Dakota State University**  
**Statement of Net Position**  
For Years Ended June 30, 2018 & 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 53,258,080	\$ 50,990,461
Short-term investments	16,000,407	14,000,016
Accounts receivable, net	5,346,815	4,874,139
Due from other NDUS institutions	119,935	66,735
Due from component units	453,002	380,363
Due from State General Fund	6,906,821	14,458,009
Grants & contracts receivable, net	14,688,600	15,010,182
Inventories	1,362,571	1,801,816
Notes receivable, net	1,568,620	1,570,962
Other assets	513,291	787,613
<b>Total Current Assets</b>	<b>\$ 100,218,142</b>	<b>\$ 103,940,296</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 1,929,624	\$ 1,841,841
Restricted investments	30,260,826	6,744
Endowment investments	448,739	499,770
Notes receivable, net	5,611,953	5,622,826
Other long-term investments	75,813,976	72,107,313
Due from Component Units	53,747	
Other noncurrent assets	390,197	485,343
Capital assets, net	487,480,181	466,766,399
<b>Total Noncurrent Assets</b>	<b>\$ 601,989,243</b>	<b>\$ 547,330,236</b>
<b>Total Assets</b>	<b>\$ 702,207,385</b>	<b>\$ 651,270,532</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 27,449,125</b>	<b>\$ 12,132,571</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 11,725,940	\$ 13,271,555
Due from other institutions	\$ 303,369	
Payable to component units		124,044
Accrued payroll	12,442,524	14,585,857
Unearned revenue	8,417,686	9,481,661
Deposits	1,670,330	1,524,645
Long-term liabilities—current portion:		
Payable to component units	2,352,821	2,308,775
Payable to others	5,970,421	5,662,528
<b>Total Current Liabilities</b>	<b>\$ 42,883,091</b>	<b>\$ 46,959,065</b>
<b>Noncurrent Liabilities</b>		
Pension Liability	\$ 51,083,526	\$ 32,875,560
OPEB Liability	\$ 2,404,117	
Payable to others	77,067	226,014
Long-term liabilities:		
Payable to component units	27,648,947	30,001,768
Payable to others	139,157,685	91,762,654
<b>Total Noncurrent Liabilities</b>	<b>\$ 220,371,342</b>	<b>\$ 154,865,996</b>
<b>Total Liabilities</b>	<b>\$ 263,254,433</b>	<b>\$ 201,825,061</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 3,892,152</b>	<b>\$ 3,308,327</b>

**Statement of Net Position - Continued on Next Page**

## Statement of Net Position - Continued

	<u>2018</u>	<u>2017</u>
<b>NET POSITION</b>		
<b>Invested in Capital Assets, net of related debt</b>	\$ 356,976,862	\$ 355,980,725
<b>Restricted for:</b>		
Nonexpendable:		
Scholarships and fellow ships	514,931	512,215
Expendable:		
Scholarships and fellow ships	1,252,141	1,480,215
Research	6,471,999	5,650,863
Instructional department uses	1,105,657	1,405,619
Loans	7,580,526	7,543,672
Capital projects	721,115	534,284
Debt service	1,968,634	1,885,544
<b>Unrestricted</b>	85,918,060	83,276,578
<b>Total Net Position</b>	<b>\$ 462,509,925</b>	<b>\$ 458,269,715</b>

**North Dakota State University**  
**Statement of Revenues, Expenses, & Other Changes in Net Position**  
**For Years Ended June 30, 2018 & 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
<b>Operating Revenues:</b>		
Student tuition and fees	\$ 120,082,759	\$ 120,304,338
Federal Grants and Contracts	41,133,817	40,910,368
State Grants and Contracts	8,675,385	7,280,406
Private Grants & Contracts	12,109,851	11,920,273
Sales and services of educational departments	32,691,045	33,495,287
Auxiliary enterprises	45,258,273	43,999,768
Other Operating Revenue	378,524	788,636
<b>Total operating revenues</b>	<b>\$ 260,329,654</b>	<b>\$ 258,699,076</b>
 <b>EXPENSES</b>		
<b>Operating expenses:</b>		
Salaries and wages	\$ 273,804,949	\$ 284,840,699
Operating expenses	86,028,908	87,103,803
Data Processing	3,908,912	4,614,515
Depreciation Expense	25,425,451	24,514,315
Scholarships and fellow ships	6,958,150	6,632,512
Cost of Sales and services	8,821,329	8,745,804
<b>Total operating expenses</b>	<b>\$ 404,947,699</b>	<b>\$ 416,451,648</b>
<b>Operating income (loss)</b>	<b>\$ (144,618,045)</b>	<b>\$ (157,752,572)</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 112,020,735	\$ 124,986,789
Federal Appropriations	7,482,072	7,301,633
Federal grants and contracts	11,525,138	10,124,007
Gifts	15,039,830	13,685,854
Investment income	4,624,558	2,932,732
Interest on capital asset - related debt	(3,930,168)	(4,090,426)
Gain/(Loss) on capital assets	(133,891)	(668,029)
Insurance Proceeds	326,531	749,234
Transfer to Industrial Commission	(268,642)	
Tax Revenues	500,000	500,000
Other nonoperating revenues over (under) expenses	(1,284,562)	(1,148,220)
<b>Net nonoperating revenues</b>	<b>\$ 145,901,601</b>	<b>\$ 154,373,574</b>
<b>Income (loss) before capital grants, gifts and transfers</b>	<b>\$ 1,283,556</b>	<b>\$ (3,378,998)</b>
State appropriations - capital assets	\$ 2,293,803	\$ 5,982,158
Capital grants and gifts	2,684,232	26,169,822
<b>Total other revenues (expenses)</b>	<b>\$ 4,978,035</b>	<b>\$ 32,151,980</b>
<b>Increase (decrease) in net position</b>	<b>\$ 6,261,591</b>	<b>\$ 28,772,982</b>
 <b>NET POSITION</b>		
<b>Net Position - beginning of year,</b>	<b>\$ 458,269,715</b>	<b>\$ 429,496,733</b>
Prior Period Adjustment- GASB 75 - OPEB Liability	\$ (2,021,381)	
<b>Net Position - end of year</b>	<b>\$ 462,509,925</b>	<b>\$ 458,269,715</b>

**North Dakota State University**  
**Statement of Cash Flows**  
**For Years Ended June 30, 2018 & 2017**

	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 120,121,720	\$ 120,836,597
Grants and Contracts	60,901,975	61,169,933
Payments to suppliers	(101,409,333)	(106,352,768)
Payments to employees	(271,243,790)	(279,849,318)
Payments for scholarships and fellow ships	(6,958,150)	(6,632,511)
Loans issued to students	(1,290,860)	(1,469,671)
Collection of loans to students	1,257,421	1,207,949
Auxiliary enterprise charges	45,505,305	43,805,204
Sales and services of educational departments	32,566,532	33,264,723
Cash received (paid) on deposits	(12,523)	(44,432)
Other receipts (payments)	(235,253)	623,302
<b>Net cash provided (used) by operating activities</b>	<u><b>\$ (120,796,956)</b></u>	<u><b>\$ (133,440,992)</b></u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 117,120,851	\$ 119,923,474
Federal appropriations	7,482,072	7,301,633
Grants and gifts received for other than capital purposes	26,576,770	23,722,390
Direct Lending Receipts	54,466,471	56,662,324
Direct Lending Disbursements	(54,466,471)	(56,658,944)
Agency fund cash increase (decrease)	126,291	139,237
Transfers to Industrial Commission	(268,643)	
Tax revenues	500,000	500,000
<b>Net cash provided/(used) by financing activities</b>	<u><b>\$ 151,537,341</b></u>	<u><b>\$ 151,590,114</b></u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	\$ 74,662,082	\$ 29,505,288
Capital appropriations	4,744,875	6,431,543
Capital grants and gifts received	2,650,433	26,829,527
Purchases of capital assets	(45,233,459)	(50,825,082)
Insurance proceeds	326,527	842,506
Principal paid on capital debt and lease	(6,606,057)	(8,254,573)
Deposits with capital debt and lease	(22,540,000)	(28,075,000)
Interest paid on capital debt and lease	(5,044,077)	(4,951,059)
<b>Net cash provided/(used) by capital and related financing activities</b>	<u><b>\$ 2,960,324</b></u>	<u><b>\$ (28,496,850)</b></u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 6,086,646	\$ 16,084,297
Interest on Investments	3,538,031	2,727,580
Purchases of investments	(40,969,984)	(12,060,422)
<b>Net cash provided/(used) by investing activities</b>	<u><b>\$ (31,345,307)</b></u>	<u><b>\$ 6,751,455</b></u>
<b>Net increase (decrease) in cash</b>	<u><b>\$ 2,355,402</b></u>	<u><b>\$ (3,596,273)</b></u>
<b>Cash - Beginning of year</b>	<u><b>\$ 52,832,302</b></u>	<u><b>\$ 56,428,575</b></u>
<b>Cash - End of year</b>	<u><b>\$ 55,187,704</b></u>	<u><b>\$ 52,832,302</b></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>2018</u>	<u>2017</u>
<b>Operating Income (loss)</b>	<b>\$ (144,618,045)</b>	<b>\$ (157,752,572)</b>
Adjustments:		
Depreciation	25,425,451	24,514,315
Other nonoperating revenues (expenses)	(983,247)	(67,985)
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(465,445)	454,590
Intergovernmental receivables	(1,082,795)	1,059,207
Inventories	439,246	29,175
Notes receivable	13,215	(198,045)
Other assets	369,469	(101,481)
Accounts payable and accrued liabilities adjusted for interest payable	(2,727,511)	(6,312,250)
Pension Liability	18,207,966	8,817,486
OPEB Liability	382,741	
Net change in deferred outflow s	(14,313,159)	(6,078,147)
Net change in deferred inflow s	584,005	292,174
Accrued payroll	(2,146,875)	2,109,075
Compensated absences	(87,801)	(149,528)
Deferred revenue	218,350	(12,574)
Deposits	(12,521)	(44,432)
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ (120,796,956)</u></b>	<b><u>\$ (133,440,992)</u></b>

### SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	\$ -	\$ 1,150,444
Expenses paid by capital lease	450,262	1,222,821
Gifts of capital assets	11,700	10,000
Net Increase (Decrease) in value of investments	777,769	198,921
<b>Total non cash transactions</b>	<b><u>\$ 1,239,731</u></b>	<b><u>\$ 2,582,186</u></b>

# ***Notes to Financial Statements***

***JUNE 30, 2018***

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

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

### **REPORTING ENTITY**

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

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

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

## *Notes to Financial Statements*

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### **Component Units**

The process of evaluating potential component units involves the application of criteria set forth in Governmental Accounting Standards Board (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. 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. GASB Statement No. 61 amends the requirements established by GASB statement No. 14 and GASB statement No. 39 for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires a financial benefit or burden relationship in addition to a fiscal dependency.

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's 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

## *Notes to Financial Statements*

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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 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***

**NDSU Foundation and Alumni Association** 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. In fiscal year 2012, the foundation changed their fiscal year end from June 30 to December 31. 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.

**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 has no blended Non-Major Component Units.

### **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, Minnesota State Community and Technical College – Moorhead, NDSCS 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 five member institutions. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. A ten-member board of directors, including the presidents of the five universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of the participating institutions. 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, 2018, Tri-College University had net position of approximately \$643,529 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 110, Fargo, ND 58102.

#### **INSIGNIFICANT COMPONENT UNITS**

The following organizations are component units of the NDSU but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than 1.0 percent each in total assets compared to total NDUS assets and less than 10 percent in payments to or from the primary institution. 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 is not significant enough to warrant inclusion in the reporting entity's financial statements. The related organizations at June 30, 2018 were:

NDSU Research Foundation

NDSU Team Makers, Inc.

Alliance for Arts & Humanities

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*

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### **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*

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### **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

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classified as Restricted Investments. Investments held by endowment funds are classified as Endowment Investments.

Investments are measured at fair value using the hierarchy established by generally accepted accounting principles. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Fair values are based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

### 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

## Notes to Financial Statements

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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
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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Notes to Financial Statements

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### 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

	<b>Primary Institution</b>
<b>Fiscal 2018</b>	
<b>Net Position, Beginning of the year, as previously reported</b>	\$ 458,269,715
<u>Prior Period Adjustments:</u>	
GASB 75 - OPEB Liability	(2,021,381)
<b>Net Position, Beginning of the year, as previously reported</b>	<u>\$ 456,248,334</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.

## *Notes to Financial Statements*

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### **New Accounting Pronouncements**

#### Accounting Standards Implemented

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This statement is effective for periods beginning after June 15, 2017. This statement revises accounting and financial reporting for OPEB provided to employees of state and local governments. The statement established standards for measuring and recognizing OPEB liabilities and expense as well as deferred outflows and deferred inflows of resources related to these benefits. The statement required retroactive adoption and resulted in a restatement of prior period net position of \$2.1 million.

#### Accounting Standards Issued but Not Yet Implemented.

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations." The statement is effective for reporting periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities." The statement is effective for reporting periods beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, "Leases." The statement is effective for reporting periods beginning after December 15, 2019.

In April 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The statement is effective for reporting periods beginning after June 15, 2018.

In June 2018, the GASB issued Statement NO. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period". The statement is effective for reporting periods beginning after December 15, 2019.

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

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

### **LIMITATIONS**

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

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

## Notes to Financial Statements

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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.

### DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Position for June 30, 2018 as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Uninsured Bank Balance</u>		
			<u>(A)</u>	<u>(B)</u>	<u>(C)</u>
Total Cash Deposits at BND	\$ 47,675,114	\$ 56,629,726	\$ 56,629,726		
CDs at BND	85,000,000	85,000,000	85,000,000		
Total Cash Deposits at Other	7,442,880	1,247,344		563,931	
CDs at Other					
<b>Total Deposits</b>	<b>\$ 140,117,994</b>	<b>\$ 142,877,070</b>	<b>\$ 141,629,726</b>	<b>\$ 563,931</b>	<b>-</b>
Cash on Hand/Petty Cash	69,710				
Less amts reported as investments	(85,000,000)				
<b>Cash &amp; Cash Equ-SNA</b>	<b>\$ 55,187,704</b>				

### 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

## Notes to Financial Statements

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of June 30, 2018, \$430.5 million of the System's bank balance of \$434 million was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 427.1 million
Uninsured and collateral held by pledging bank not in system's name	\$ 3.4 million

### Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2018, as shown below:

Account	Market Value	Maturities from June 30			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
<b>Debt Securities:</b>					
US Treasuries	\$ 24,745,409	\$ 24,745,409	\$ -		
US Strips	-				
Mutual Bond Funds	-				
Money market mutual funds	5,515,824	5,515,824			
Total Securities w/ Maturities	<u>\$ 30,261,233</u>	<u>\$ 30,261,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
<b>Other Invest Types:</b>					
Stocks	\$ 108,732				
Exchange Traded Funds	982,321				
BND Cd's Credit risked as investments but reported as deposits	85,000,000				
Non-BND Cd's Credit risked as investments but reported as deposits					
Investment in Real Estate	6,171,662				
Alternate Investments					
Total reported on SNA	<u>\$ 122,523,948</u>				

### 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

## Notes to Financial Statements

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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.

### 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, 2018, the University's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

Investment Type	Market Value	Credit Quality Rating	
		AAA	Not Rated
<b>Debt Securities:</b>			
Mutual Bond Funds			
Money market mutual funds	\$ 5,515,824	\$ 5,515,824	
Other			
<b>Total</b>	<b>\$ 5,515,824</b>	<b>\$ 5,515,824</b>	<b>\$ -</b>

The NDUS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

### Fair Value Hierarchy

In accordance with GASB Statement No. 72, assets are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Fair values are based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The balances of assets measured at fair value on a recurring basis at June 30, 2018 are:

## Notes to Financial Statements

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Equity Securities	\$ 108,732			\$ 108,732
US Treasuries	24,745,409			\$ 24,745,409
Exchange Traded Funds	982,321			\$ 982,321
Real Estate			\$ 6,171,662	\$ 6,171,662
<b>Total</b>	<u>\$ 25,836,462</u>	<u>\$ -</u>	<u>\$ 6,171,662</u>	<u>\$ 32,008,124</u>

### Note 3 – Receivables

Receivables at June 30, 2018 consist of the following amounts:

	<u>Current</u>	<u>NonCurrent</u>	<u>Total</u>
Student & General	\$ 8,693,988		\$ 8,693,988
Interest Receivable	193,818		193,818
Allow ance for doubtful Accts	(3,540,991)		(3,540,991)
Total Accounts Receivable, Net	<u>\$ 5,346,815</u>		<u>\$ 5,346,815</u>
Grants & Contracts Receivable	\$ 11,143,821		\$ 11,143,821
Due from Other State Agencies	3,544,779		3,544,779
Total Grants & Contracts Receivable, Net	<u>\$ 14,688,600</u>		<u>\$ 14,688,600</u>
Student	\$ 1,724,667	\$ 6,175,015	\$ 7,899,682
Allow ance for Doubtful Notes	(156,047)	(563,062)	(719,109)
Total Notes Receivable, Net	<u>\$ 1,568,620</u>	<u>\$ 5,611,953</u>	<u>\$ 7,180,573</u>

### 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 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

## Notes to Financial Statements

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, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 10,552,252				\$ 10,552,252
Construction in Progress	26,185,437	\$ 28,590,581		\$ (24,796,260)	29,979,758
<b>Total non-depreciable capital assets</b>	<b>\$ 36,737,689</b>	<b>\$ 28,590,581</b>	<b>\$ -</b>	<b>\$ (24,796,260)</b>	<b>\$ 40,532,010</b>
Land Improvements/infrastructure	\$ 57,629,674	\$ 2,148,923			\$ 59,778,597
Buildings	539,130,183	9,335,532		\$ 24,765,142	573,230,857
Furniture, fixtures, and equipment	143,367,561	6,537,153	\$ 1,924,338	\$ 31,118	148,011,494
Intangibles:					
<i>Computer Software</i>	1,115,373				1,115,373
<i>Other</i>	642,410				642,410
Library Materials	16,820,279	126,439	569,337		16,377,381
<b>Total Depreciable Capital Assets</b>	<b>\$ 758,705,480</b>	<b>\$ 18,148,047</b>	<b>\$ 2,493,675</b>	<b>\$ 24,796,260</b>	<b>\$ 799,156,112</b>
<b>Less accumulated depreciation and amortization</b>					
Land Improvements/infrastructure	\$ 35,343,682	\$ 1,333,942			\$ 36,677,624
Buildings	188,126,409	14,869,404			202,995,813
Furniture, fixtures, and equipment	89,261,756	8,605,360	1,324,945		96,542,171
Intangibles:					
<i>Computer Software</i>	905,734	97,394			1,003,128
<i>Other</i>	155,149				155,149
Library Materials	14,884,041	519,351	567,335		14,836,057
<b>Total Accumulated depreciation and amortization</b>	<b>\$ 328,676,771</b>	<b>\$ 25,425,451</b>	<b>\$ 1,892,280</b>	<b>\$ -</b>	<b>\$ 352,209,942</b>
<b>Total Depreciable Capital Assets, net</b>	<b>\$ 430,028,710</b>	<b>\$ (7,277,404)</b>	<b>\$ 601,395</b>	<b>\$ 24,796,260</b>	<b>\$ 446,946,171</b>
<b>Capital Assets, net</b>	<b>\$ 466,766,399</b>	<b>\$ 21,313,177</b>	<b>\$ 601,395</b>	<b>\$ -</b>	<b>\$ 487,478,181</b>

Construction in progress for the year ended June 30, 2018 was as follows:

## Notes to Financial Statements

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Project	Amount Authorized	Expended (CIP Balance)	Expended (non-capitalized)	Authorized Balance
<b><u>Budiling Projects:</u></b>				
Carrington Seed Cleaning Plant	\$ 2,204,112	\$ 788,083	\$ 298,410	\$ 1,117,619
NCREC Seed Cleaning Plant	2,204,112	97,697	506,468	1,599,947
Catherine Cater Hall	39,505,000	18,712,979		20,792,021
Univ Village-Phase 1	10,000,000	8,409,849		1,590,151
Sudro Hall	22,400,000	1,971,150		20,428,850
<b>Construction in Progress Total</b>	<b>\$ 76,313,224</b>	<b>\$ 29,979,758</b>	<b>\$ 804,878</b>	<b>\$ 45,528,588</b>

## Notes to Financial Statements

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### Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2018:

Accounts Payable	\$ 8,144,128
Due to other state agencies	273,290
Sales Tax Payable	0
Accrued Interest	1,151,900
Contractor Payable/Retainage	2,156,581
Total Payables & Accrued Liabilities	<u>\$ 11,725,899</u>

### Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2018 are as shown below:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Non-Current Portion
Bonds Payable	\$ 73,874,644	\$ 74,548,766	\$ 26,371,021	\$ 122,052,389	\$ 4,037,705	\$ 118,014,684
Due to CU - Bonds Payable	17,355,000		1,310,000	16,045,000	1,325,000	14,720,000
Capital Leases	6,178,934		702,445	5,476,489	699,284	4,777,205
Due to CU - Capital Leases	14,955,543		998,775	13,956,768	1,027,821	12,928,947
Special Assessments	3,399,278	450,262	134,837	3,714,703	140,720	3,573,983
Compensated Absences	13,972,326		87,801	13,884,525	1,092,712	12,791,813
<b>Total</b>	<u><b>\$ 134,636,716</b></u>	<u><b>\$ 74,999,028</b></u>	<u><b>\$ 29,604,879</b></u>	<u><b>\$ 175,129,874</b></u>	<u><b>\$ 8,323,242</b></u>	<u><b>\$ 166,806,632</b></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, 2018 is presented below and the detail is presented in the Supplementary Information section following these notes.

# Notes to Financial Statements

<u>Bond Issue</u>	Date of Issue	Maturity Date	Original Amount of Issue	Bonds Outstanding 6/30/17	New Bonds issued this Fiscal Year	Refunding Bonds	Bond Principal paid this Fiscal Year	Bonds Outstanding 6/30/18
<u>Housing and Auxiliary System Revenue Bonds:</u>								
2009 Niskanen/West Dining Center	7/29/2009	4/1/2039	\$ 26,245,000	\$ 22,540,000		\$ (22,540,000)	\$ -	
2012A Refunding (Series 2002 LLC Bonds)	3/1/2012	4/1/2027	5,730,000	4,030,000			\$ 365,000	3,665,000
2014A Refunding (Series 2004 Bison Court)	4/1/2014	4/1/2034	8,340,000	7,395,000			340,000	7,055,000
2015A Refunding (Series 2005, 2006A & B)	2/5/2015	4/1/2036	21,195,000	18,260,000			1,590,000	16,670,000
2015B Aquatic Addition (Series 2004 Bison Court)	6/24/2015	4/1/2035	9,355,000	8,780,000			345,000	8,435,000
2016 Refunding (Series 2007 LLCE/Ceres)	8/2/2016	4/1/2036	10,405,000	10,065,000			385,000	9,680,000
2017A Cater Hall			48,770,000		\$ 48,770,000			48,770,000
2017B Refunding (Series 2009 Niskanen/WDC)			22,755,000			22,755,000	435,000	22,320,000
Subtotal - NDSU			\$ 152,795,000	\$ 71,070,000	\$ 48,770,000	\$ 215,000	\$ 3,460,000	\$ 116,595,000
<u>NDSU Research &amp; Tech Park, Inc.</u>								
Series 2016, Research 1 and 2 (Series 2007A & B, R1 and R2)	7/27/2016	5/1/2032	\$ 18,790,000	\$ 17,355,000			\$ 1,310,000	\$ 16,045,000
Subtotal - NDSU Research & Tech Park, Inc.			\$ 18,790,000	\$ 17,355,000	\$ -	\$ -	\$ 1,310,000	\$ 16,045,000
GRAND TOTAL BONDS PAYABLE			\$ 171,585,000	\$ 88,425,000	\$ 48,770,000	\$ 215,000	\$ 4,770,000	\$ 132,640,000

## 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 \$22.5 million of Housing and Auxiliary Facilities bonds with an interest rate of 2.00 – 5.0 percent. The bonds were used to recall \$22.5 million of outstanding Series 2009 Housing and Auxiliary bonds. The bonds were refunded to reduce total debt service payments over the next twenty years by \$4.0 million. The economic gain realized as a result of the refunding was \$2.9 million.

## Notes to Financial Statements

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### Scheduled Maturities of Bonds Payable

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 5,362,705	\$ 4,759,333	\$ 10,122,038
2020	6,447,755	4,619,317	11,067,072
2021	6,642,755	4,420,555	11,063,310
2022	6,887,755	4,173,284	11,061,039
2023	6,642,755	3,906,654	10,549,409
2024 - 2028	29,973,590	15,766,099	45,739,689
2029 - 2033	30,183,039	10,321,814	40,504,853
2034 - 2038	22,810,851	5,975,211	28,786,062
2039 - 2043	12,739,400	3,013,325	15,752,725
2044 - 2048	10,406,784	908,600	11,315,384
	<u>\$ 138,097,389</u>	<u>\$ 57,864,192</u>	<u>\$ 195,961,581</u>

### Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2018.

### 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 2037.

## Notes to Financial Statements

A summary of the Capital Lease & Due to Component Unit activity for fiscal 2018 is as follows:

LEASE NUMBER	Lease Start	DESCRIPTION	Terms (in Months)	PRINCIPAL BALANCE DUE	PRINCIPAL	PRINCIPAL	PRINCIPAL BALANCE DUE
	Date			6/30/2017	NEW LEASES	PAID	6/30/2018
<b>Capital Leases</b>							
0573	06/24/12	Bank of America-Energy Savings Performance Contract	168	\$ 5,057,148		\$ 488,739	\$ 4,568,409
0608	07/15/14	Wells Fargo-Two Skid Steers, N-HL L220; Blow Hard Bunk Clean	60	25,901		12,716	13,185
0636	09/23/15	Wells Fargo-New Lanier Pro C7110SX Color MFP Prod. System	36	46,973		37,435	9,537
0637	07/15/15	Wells Fargo-Used 2002 Case IH 220 Tractor w attachments	60	34,754		11,126	23,628
0643	06/12/16	Wells Fargo-New Case Forage Wagon	61	47,626		8,714	38,912
0644	08/17/16	Wells Fargo-Athletics Scoreboard/Media System	84	966,532		143,715	822,817
				\$ 6,178,934	\$ -	\$ 702,445	\$ 5,476,489
<b>Due to Component Units - Capital Leases</b>							
0465	10/10/05	NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF	180	\$ 1,025,543		\$ 283,775	\$ 741,768
0476	11/29/07	NDSU Development Foundation-Renaissance Hall	303	4,330,000		245,000	4,085,000
0586	11/29/07	US Bank for NDSU Development Foundation-Barry & Klai Hall	295	9,600,000		470,000	9,130,000
				\$ 14,955,543	\$ -	\$ 998,775	\$ 13,956,768
		Grand Total		\$ 21,134,477	\$ -	\$ 1,701,220	\$ 19,433,257

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,727,105	\$ 685,677	\$ 2,412,782
2020	1,779,254	620,347	2,399,601
2021	1,621,641	555,699	2,177,340
2022	1,546,813	501,310	2,048,123
2023	1,438,591	448,583	1,887,174
2024 - 2028	5,649,853	1,539,646	7,189,499
2029 - 2033	3,395,000	738,878	4,133,878
2034 - 2038	2,275,000	186,700	2,461,700
	\$ 19,433,257	\$ 5,276,840	\$ 24,710,097

## ***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>
2019	\$ 140,720	\$ 176,373	\$ 317,093
2020	145,448	169,505	314,953
2021	152,528	162,425	314,953
2022	159,956	154,997	314,953
2023	162,580	147,202	309,782
2024 - 2028	897,492	612,429	1,509,921
2029 - 2033	1,000,035	386,997	1,387,032
2034 - 2038	727,777	155,924	883,701
2039 - 2043	328,167	31,116	359,283
	<u>\$ 3,714,703</u>	<u>\$ 1,996,968</u>	<u>\$ 5,711,671</u>

### **Compensated Absences**

The compensated absences liability as of June 30, 2018 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, 2018 and 2017 totaled \$13,884,525 and \$13,972,326, respectively. Leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

## ***Note 12 – Deferred Outflows and Deferred Inflows***

Deferred outflows and deferred inflows as of June 30, 2018 consist of the following:

## Notes to Financial Statements

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### Deferred Outflows

Pension	\$ 24,863,910
Debt Refunding	2,585,215
	<u>\$ 27,449,125</u>

### Deferred Inflows

Pension	\$ 3,767,564
Debt Refunding	3,193
Grant amounts received prior to meeting time requirements	121,395
	<u>\$ 3,892,152</u>

## Note 13 – 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 description of each plan:

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

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

## *Notes to Financial Statements*

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### **Pension Benefits**

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

### **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% 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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

### **Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

## *Notes to Financial Statements*

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### **Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7.0 percent and employer contribution rates are 7.12 percent of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or \$25

13 to 25 months of service – Greater of two percent of monthly salary or \$25

25 to 36 months of service – Greater of three percent of monthly salary or \$25

Longer than 36 months of service – Greater of four percent of monthly salary or \$25

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For additional information on this topic see the audited NDUS Financial Statements for the year ended June 30, 2018.

### **TIAA 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 SBHE in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. The SBHE has the authority for establishing or amending plan provision and establishing or amending contribution requirements. Further information can be obtained by writing to TIAA; 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

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Employment Class	Years of Service	Contributions by the Participant	Contributions by the Institution
I and III	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%
IV	Closed to new participants	4.0%	12.0%
President/Chancellor (additional employer contribution)	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. The University System contributed \$42.3 million to TIAA-CREF during the fiscal years ending June 30, 2018.

### **Note 14 - 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 percent of covered compensation.

See the audited NDUS Financial Report for the year ended June 30, 2018 for additional information.

### **Note 15 - Construction Commitments and Financing**

The institutions have contracted for various construction projects as of June 30, 2018.



### **NDSU Foundation and Alumni Association**

On January 1, 2018, the North Dakota State University Development Foundation and the North Dakota State University Alumni Association changed its name to NDSU Foundation.

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

In fiscal year 2006, the Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSUFAA 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 Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2018, the Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$331,996.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the Foundation. NDSU has also recorded a capital asset and a capital lease payable, reflected as "Due to Component Units" by NDSU, of \$741,768 as of June 30, 2018. Since the foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

#### **Renaissance Hall**

The former Northern School Supply building was donated to the Foundation by NDSU alum in December of 2001. During fiscal year 2003 and 2004, the Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004. The Foundation 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 Foundation, 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 SBHE 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 Foundation incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the Foundation \$414,906 in fiscal year 2018 for debt service under this agreement. As of June 30, 2018, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$4.1 million.

## *Notes to Financial Statements*

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

Effective November 28, 2007, NDSU and the Foundation entered into lease agreements for two buildings in downtown Fargo, formerly known as the "Pioneer Mutual Building" and "Lincoln Mutual building". The Foundation financed the construction of the Barry Hall business building and Klai Hall architecture building projects through the sale of \$18.52 million of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and interest payments on the fixed rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property.

The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property.

In May 2012, the Foundation 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. During fiscal year 2018, NDSU paid \$776,215 to the bond trustee on-behalf of the Foundation under the new leases for debt service on Barry Hall & Klai Hall. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2018, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$9.1 million.

### **Other Transactions**

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and building. Amounts paid by NDSU under these agreements as of June 30, 2018 totaled \$679,131.

NDSU pays the Foundation rent under operating lease agreements for two buildings (Criminal Justice and Graduate Center), as well as pasture rent paid from NDSU's Agricultural Experiment Station. Those operating lease payments totaled \$123,596 during fiscal year 2018. In addition to the debt service payments on the Fargodome, Renaissance, Barry and Klai Halls, NDSU reimburses the Foundation for other operating expenses related to those buildings, such as property insurance, flood insurance, boiler inspection fees, real estate taxes and bond administrative fees. Those costs totaled \$95,604 during fiscal year 2018.

## ***Note 17 – On-Behalf Payments***

No on-behalf payments at NDSU in fiscal 2018.

## ***Note 18 – 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, 2018, using the “functional classification” are presented below:

<b>Operating Expenses</b>	
Instruction	\$ 92,763,151
Academic Support	30,642,588
Student Services	36,930,955
Institutional Support	14,341,022
Physical Plant	27,977,806
Scholarships & Fellowships	19,680,698
Auxiliary Services	35,733,421
Public Service	32,749,126
Research	88,703,480
Depreciation & Amortization	25,425,452
Total	<u>\$ 404,947,699</u>

## ***Note 19 – 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, 2018, amounted to \$2.2 million.

Future minimum lease payments at June 30, 2018:

## Notes to Financial Statements

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<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2019	\$ 1,226,286
2020	902,425
2021	701,173
2022	555,557
2023	364,437
2024 - 2028	768,125
Total	<u>\$ 4,518,003</u>

### **Note 20 – 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, 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.

### **Note 21 – Risk Management**

The University System is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are 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.

## *Notes to Financial Statements*

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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 22 – 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, 2018 is \$314,794.

## ***Note 23– Deficit Net Position Balances > \$100,000***

As of June 30, 2018 the University had no reportable fund deficits in excess of \$100,000.

***Note 24 – Subsequent Events***

As of February 6, 2019 there are no subsequent events for North Dakota State University.

**North Dakota State University**  
**Supplementary Information - Component Units**  
**Statement of Financial Position**  
**For Year Ended June 30, 2018**

<b>FASB BASIS</b>	<b>Major Component Units</b>	
	<b>NDSU Foundation and Alumni Association December 31, 2017</b>	<b>NDSU Research &amp; Technology Park June 30, 2018</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,956,232	\$ 2,414,705
Short-term investments	20,370,915	
Accounts receivable, net	856,356	211,041
Notes Receivable, net		3,690,000
Unconditional promises to give, net	9,677,658	2,500
Current Portion of net investment in direct financing leases		1,114,286
Other assets	157,161	2,600
<b>Total Current Assets</b>	<b>\$ 37,018,322</b>	<b>\$ 7,435,132</b>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	\$ 2,509,284	
Investments, net of current portion	218,020,102	
Charitable remainder trust account investments, net of accumulated depreciation	32,788,693	
Contracts for deed and notes receivable	838,276	
Long term pledges receivable	27,595,679	
Notes Receivable, net		\$ 2,800,000
Net investment in direct financing leases, net of current portion		13,715,921
Other noncurrent assets	1,072,299	312,457
Capital assets, net	3,313,767	6,126,353
<b>Total Noncurrent Assets</b>	<b>\$ 286,138,100</b>	<b>\$ 22,954,731</b>
<b>Total Assets</b>	<b>\$ 323,156,422</b>	<b>\$ 30,389,863</b>

**Statement of Financial Position - Continued on Next  
Page**

## Statement of Financial Position - Continued

### FASB BASIS

	<b>Major Component Units</b>	
	<b>NDSU Development Foundation December 31, 2017</b>	<b>NDSU Research &amp; Technology Park June 30, 2018</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 781,873	\$ 209,312
Accrued payroll		26,302
Current portion of gifts annuities and life income agreements	794,406	
Deferred revenue	83,915	
Other current liabilities	388,670	100,000
Long-term liabilities—current portion	1,027,651	5,037,311
<b>Total Current Liabilities</b>	<b>\$ 3,076,515</b>	<b>\$ 5,372,925</b>
<b>Noncurrent Liabilities</b>		
Long-term portion of split-interest agreer	6,764,722	
Other noncurrent liabilities		
Long-term liabilities	24,920,249	17,940,186
<b>Total Noncurrent Liabilitie</b>	<b>\$ 31,684,971</b>	<b>\$ 17,940,186</b>
<b>Total Liabilities</b>	<b>\$ 34,761,486</b>	<b>\$ 23,313,111</b>
<b>NET POSITION</b>		
Temporarily restricted	\$ 73,904,339	\$ 2,500
Permanently restricted	181,371,992	
Unrestricted	33,118,605	7,074,252
<b>Total Net Position</b>	<b>\$ 288,394,936</b>	<b>\$ 7,076,752</b>

**North Dakota State University**  
**Supplementary Information - Component Units**  
**Statement of Activities**  
**For Year Ended June 30, 2018**

**FASB BASIS**

	<u>Major Component Units</u>	
	NDSU Foundation and Alumni Association	NDSU Research & Technology Park
	<u>December 31, 2017</u>	<u>June 30, 2018</u>
<b>Support and revenue</b>		
Gifts and contributions	\$ 46,645,770	\$ 274,165
Investment Income	10,564,874	740,232
Net realized and unrealized gains (losses) on investments	19,791,620	
Program and event income		82,000
Other Income	1,049,030	890,545
<b>Total support and revenue</b>	<b>\$ 78,051,294</b>	<b>\$ 1,986,942</b>
<b>Expenses</b>		
Program Services	\$ 8,383,667	\$ 1,073,275
Supporting Services	10,251,665	763,816
Fund raising expense		
<b>Total expenses</b>	<b>\$ 18,635,332</b>	<b>\$ 1,837,091</b>
<b>Change in Net Assets</b>	<b>\$ 59,415,962</b>	<b>\$ 149,851</b>
<b>Net Position, Beginning of Year</b>	<b>\$ 228,978,974</b>	<b>\$ 6,926,901</b>
<b>Net Position, End of Year</b>	<b>\$ 288,394,936</b>	<b>\$ 7,076,752</b>