

NDSU

NORTH DAKOTA STATE UNIVERSITY

Annual Financial Report
June 30, 2015

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North Dakota State University

Management's Discussion and Analysis

JUNE 30, 2015

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, 2015. 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, elite research university, ranked by the Carnegie Commission on Higher Education among the top 108 public and private universities in the country. NDSU is in the elite category of "Research Universities/Very High Research Activity", with several programs ranked in the Top 100 by the National Science Foundation. NDSU is fully accredited as an institution by the Higher Learning Commission of the North Central Association of Colleges and Secondary Schools.

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

Management's Discussion and Analysis

Mission

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

Vision

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

Financial Highlights

NDSU's overall financial standing continues to be sound with total assets of \$579 million and total liabilities of \$200 million, and a net position total of \$379 million (an increase of \$43 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, 2015 and 2014:

	2015	2014	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 98,250,364	\$ 103,292,042	\$ (5,041,678)	-5%
Other non-current assets	88,966,440	75,728,321	13,238,119	17%
Capital assets, net	392,410,954	335,384,315	57,026,639	17%
Total assets	<u>\$ 579,627,758</u>	<u>\$ 514,404,678</u>	<u>\$ 65,223,080</u>	<u>13%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,366,463</u>	<u>\$ 1,062,278</u>	<u>\$ 4,304,185</u>	<u>405%</u>
LIABILITIES				
Current liabilities	\$ 44,549,960	\$ 39,070,038	\$ 5,479,922	14%
Noncurrent liabilities	156,174,625	130,813,445	25,361,180	19%
Total liabilities	<u>\$ 200,724,585</u>	<u>\$ 169,883,483</u>	<u>\$ 30,841,102</u>	<u>18%</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 4,519,131</u>	<u>\$ 230,680</u>	<u>\$ 4,288,451</u>	<u>1859%</u>
NET POSITION				
Invested in capital assets, net	\$ 278,562,461	\$ 215,796,822	\$ 62,765,639	29%
Restricted	19,888,404	24,340,093	(4,451,689)	-18%
Unrestricted	81,299,640	105,215,878	(23,916,238)	-23%
Total net position	<u>\$ 379,750,505</u>	<u>\$ 345,352,793</u>	<u>\$ 34,397,712</u>	<u>10%</u>
Current Ratio (current assets to current liabilities)	<u>2.2</u>	<u>2.6</u>		
Primary Reserve Ratio (expendable net assets to operating expenses)	<u>0.25</u>	<u>0.34</u>		

During fiscal 2015, assets were transferred from current to non-current in order to increase the investment earnings return by investing in longer term certificates of deposit. The increase in non-current assets is partially due to a transfer from current assets, as well as a sale of revenue bonds late in the year. The increase in capital assets is due to capitalization of construction projects during the year. Total assets increased due to the overall improvement in the University's financial performance.

Current liabilities increased primarily because of an increase in retainage payables on construction contracts at the end of fiscal 2015. Noncurrent liabilities decreased during fiscal 2015 primarily due to the recognition of an allocated share of the state's pension liability, as required by a new accounting principle – GASB Statement No. 68.

Invested in capital assets, net, increased due to the capitalization of construction projects. The restricted net position decrease is primarily due to a drawing down of a prior construction project cost savings on revenue bond financed project where the savings is restricted for future debt service obligations. Unrestricted net position decrease is due to the recognition of an allocated share of a share of the state's pension liability, as required by GASB Statement No. 68.

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Student tuition and fees	\$ 110,778,521	\$ 106,491,251	\$ 4,287,270	4%
Grants, contracts, (operating and nonoperating)	100,840,635	88,086,475	12,754,160	14%
State appropriations (operating and nonoperating)	142,196,823	129,570,005	12,626,818	10%
Sales and services of educational departments	35,517,866	35,920,553	(402,687)	-1%
Auxiliary enterprises	43,286,230	42,560,463	725,767	2%
Gifts	9,204,609	7,489,167	1,715,442	23%
Other, (operating and nonoperating)	3,496,432	3,745,598	(249,166)	-7%
Total revenues	\$ 445,321,116	\$ 413,863,512	\$ 31,457,604	8%
Expenses				
Salaries and wages	\$ 268,589,588	\$ 254,955,104	\$ 13,634,484	5%
Operating expenses	107,299,624	101,423,382	5,876,242	6%
Depreciation expense	21,761,642	20,714,843	1,046,799	5%
Scholarships and fellowships	2,498,685	3,115,800	(617,115)	-20%
Other, (operating and nonoperating)	1,615,149	6,794,261	(5,179,112)	-76%
Total expenses	\$ 401,764,688	\$ 387,003,390	\$ 14,761,298	4%
Increase (decrease) in net assets	\$ 43,556,428	\$ 26,860,122	\$ 16,696,306	62%
Net Position, Beginning of Year, as restated	\$ 336,194,077	\$ 318,492,671	\$ 17,701,406	6%
Net Position, End of Year	\$ 379,750,505	\$ 345,352,793	\$ 34,397,712	10%

Overall revenues increased 2% and expenses increased 8% from 2014 to 2015.

On the revenues side: Student tuition and fees increased 4% primarily due to a small increase in student tuition and fees, as well as a slight enrollment increase. Overall state appropriations decreased 10% due to improved legislative support. Grant and contract, along with gift revenue increases are primarily due to improved external support from state and private funding for research projects.

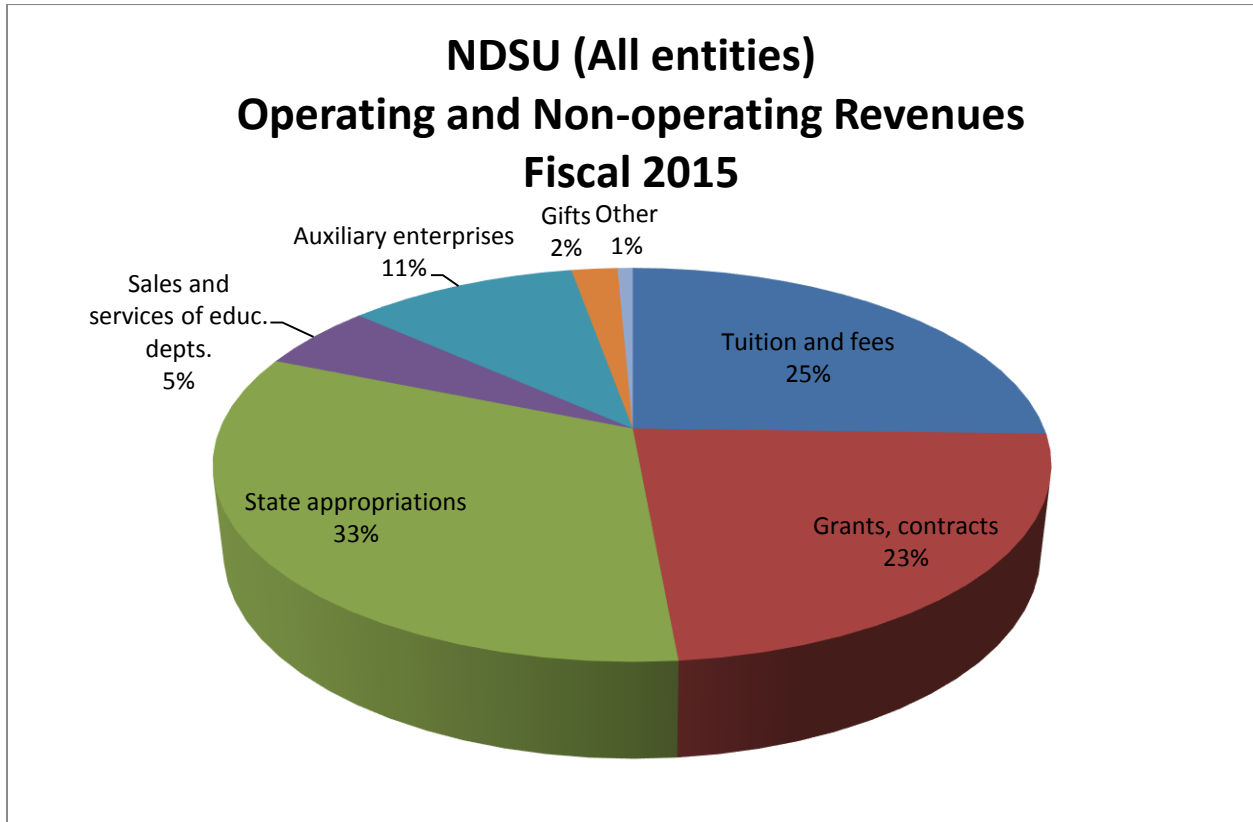
On the expenses side: increase in operating expenses is primarily due to an average 3% salary increase, plus fringe benefits, during fiscal 2015.

Reduction scholarship expense: Although the dollar change is not significant, the percentage change is 20%. This change is primarily due to reduction of Title IV grant revenue, as well as numerous other minor changes in scholarship programs.

Management's Discussion and Analysis

Graphs

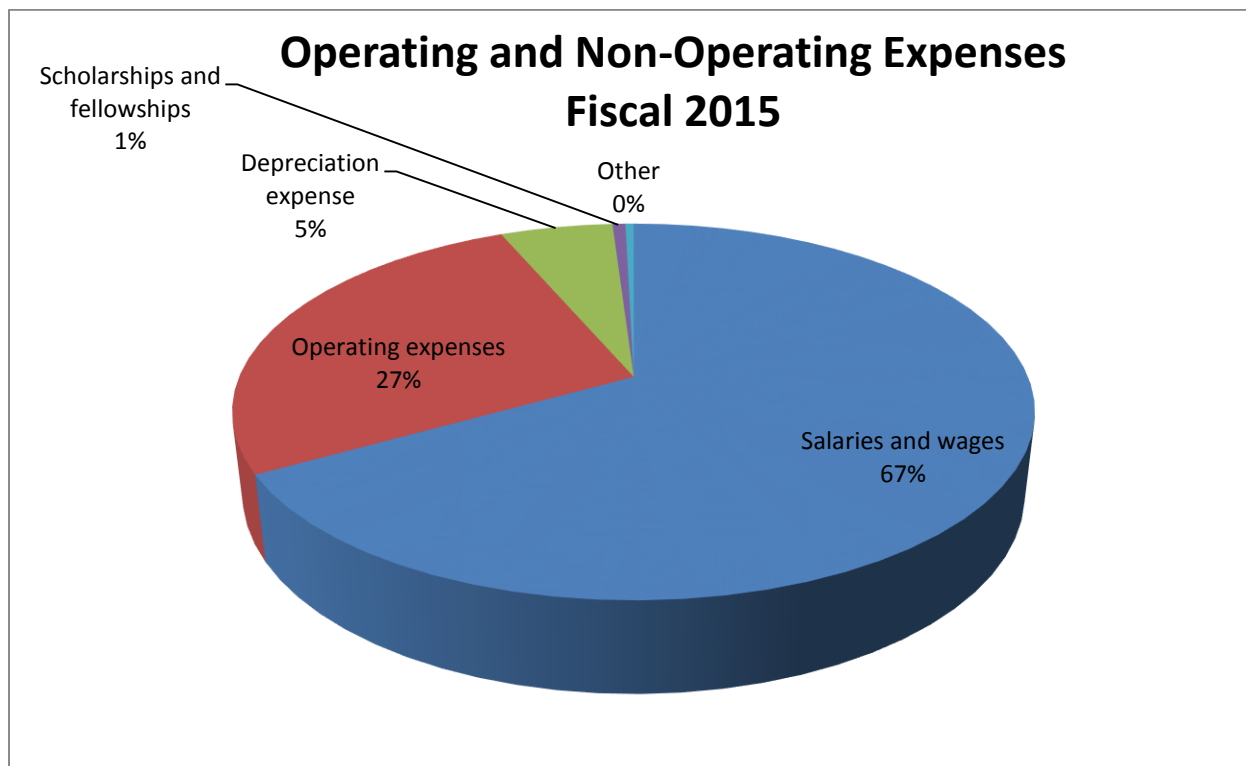
The following graph depicts sources of operating and non-operating revenues for fiscal year 2015:



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

Management's Discussion and Analysis

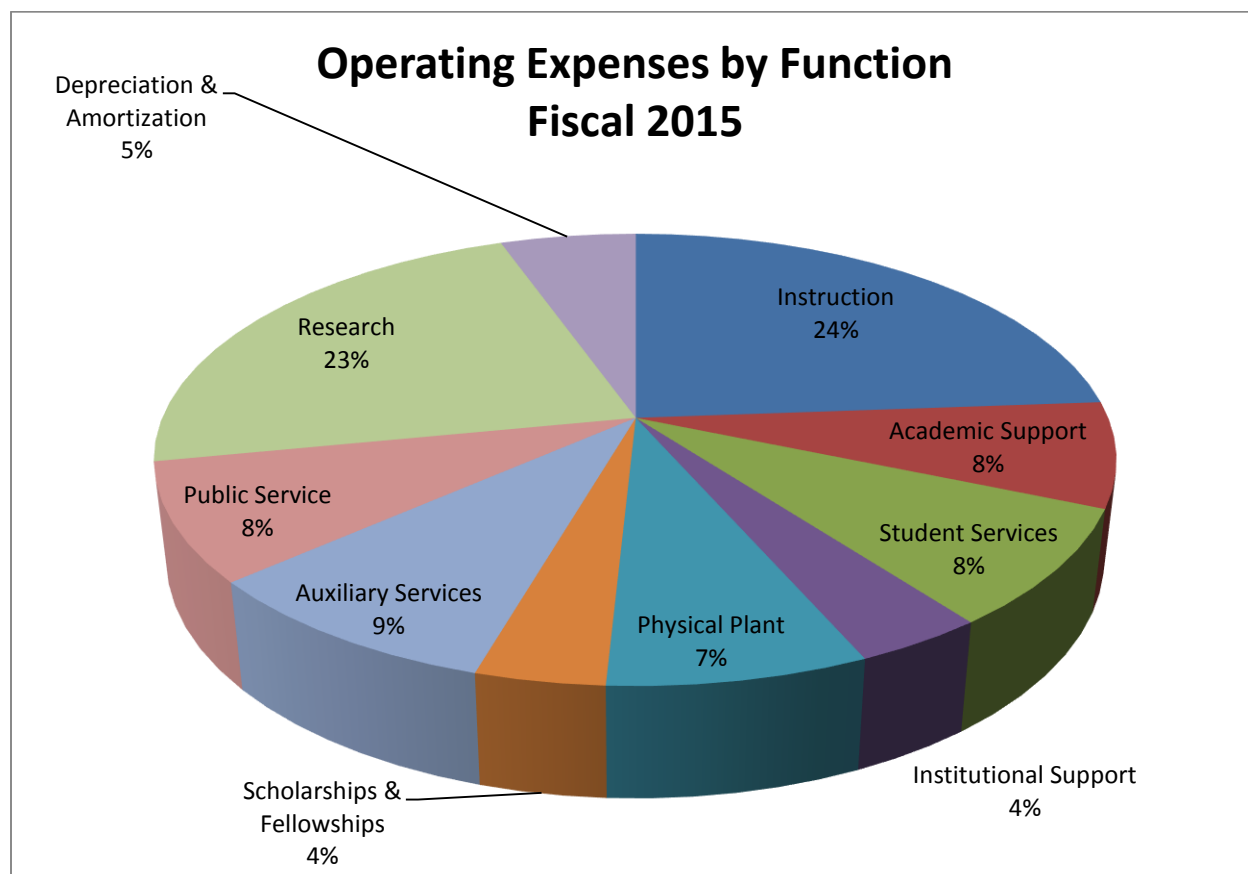
The following graph depicts objects of operating and non-operating expenses for fiscal year 2015:



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 2015:



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

Long-term Debt

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

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

Financial Ratios

	2015	2014	2013
Current Ratio (current assets to current liabilities)	2.20	2.60	2.00
Primary Ratio (expendable net position to operating expense)	0.25	0.34	0.31
Net Income Margin (increase in net position to total revenue)	9.70%	6.50%	8.50%
Viability Ratio (expendable net position to long-term debt)	0.80	1.00	1.10
Higher Learning Commission's Composite Financial Index	3.36	4.25	3.90

Current Ratio

The current ratio measures whether or not the University has enough readily available resources to pay its short-term bills and liabilities. A ratio of 2 or greater is considered healthy. By comparison, the ND University System's current ratio was 2.7, 2.9, and 2.5 for fiscal years 2015, 2014, and 2013, respectively.

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, 2015, is 0.25, which indicates that in an emergency situation, the University could continue its current operations for approximately 13 weeks. By comparison, the ND University System's primary reserve ratio was 0.3 for fiscal years 2015, 2014 and 2013, respectively.

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 2015 margin is 9.7%. A positive margin is considered good. By comparison, the ND University System's net income margin is 6.5%, 6.5%, and 6.9% for fiscal years 2015, 2014 and 2013, respectively.

Viability Ratio

The viability ratio is a measure of financial health; the availability of expendable net assets to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable net assets are the balances in the total net assets, excluding

Management's Discussion and Analysis

investment in capital assets and non-expendable scholarships and fellowships. NDSU's viability ratio went from 0.95 to 0.80 from fiscal 2014 to 2015. This decrease is due to adding a \$22 million liability for the allocated share of the state's pension liability, as required by a new accounting principle – GASB Statement No. 68. By comparison, the ND University System's viability ratio is 0.9, 1.1 and 1.1 and 0.8 for fiscal years 2015, 2014 and 2013, respectively.

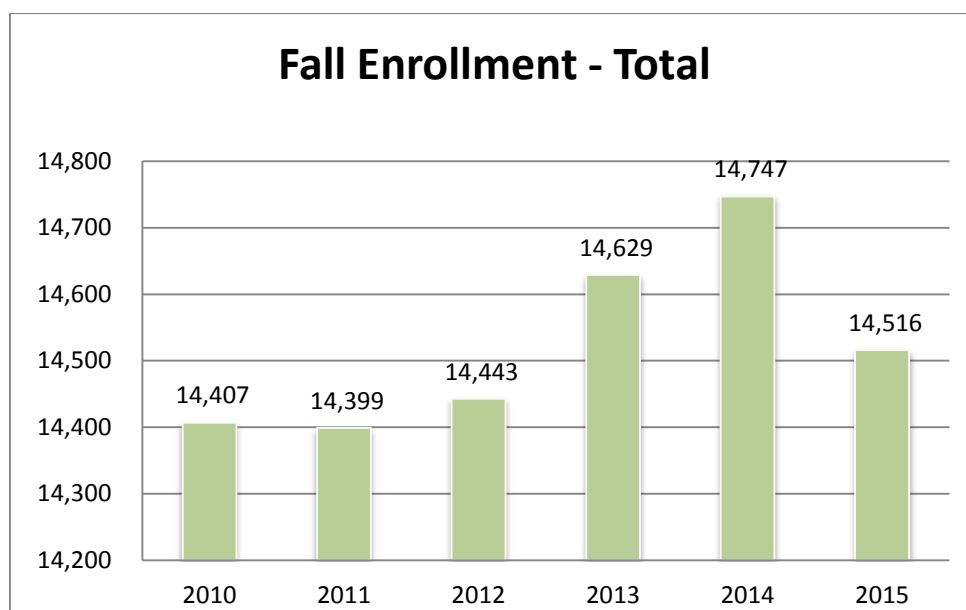
Higher Learning Commission's Composite Financial Index

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 3.36 for fiscal 2015, which is well over the level set by the HLC requiring a review. This 3.36 includes the effect of GASB 68 which added a \$22 million pension liability.

Other Highlights

Student Enrollment

NDSU's annual unduplicated degree credit headcount for fall 2015 was 14,516 students, which represents 30% of the student enrollment for the entire ND University system. NDSU's degree credit headcount for the last five fall terms is as follows:



Financial Contact

The University's financial statements are designed to present users with a general overview of the University's finances and to demonstrate accountability. The NDSU Accounting Office is responsible for the contents of this report. If you have questions about the report or need additional financial information, contact the NDSU Accounting Office, Gary Wawers, Controller, at gary.wawers@ndsu.edu or Ramona Adams, Associate Controller, at ramona.adams@ndsu.edu.

North Dakota State University
Statement of Net Position
For Years Ended June 30, 2015 & 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 40,740,377	\$ 49,520,102
Short-term investments	12,025,018	15,982,352
Accounts receivable, net	10,143,132	6,482,855
Due from other NDUS institutions	712,566	2,393,126
Due from component units	1,574,280	784,179
Due from State General Fund	13,798,972	8,832,731
Grants & contracts receivable, net	15,250,700	15,617,075
Inventories	1,632,290	1,717,420
Notes receivable, net	1,422,915	1,449,465
Other assets	950,114	512,737
Total Current Assets	\$ 98,250,364	\$ 103,292,042
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 1,628,088	\$ 4,339,295
Restricted investments	10,937,743	3,131,125
Endowment investments	412,183	412,278
Notes receivable, net	5,091,966	5,126,102
Other long-term investments	69,824,441	61,242,687
Unamortized bond discount and cost of issuance	67,965	97,715
Due From Component Units	331,235	613,951
Other noncurrent assets	672,819	765,168
Capital assets, net	392,410,954	335,384,315
Total Noncurrent Assets	\$ 481,377,394	\$ 411,112,636
Total Assets	\$ 579,627,758	\$ 514,404,678
DEFERRED OUTFLOWS OF RESOURCES	\$ 5,366,463	\$ 1,062,278
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 17,266,083	\$ 12,630,546
Payable to component units	314,979	1,282,726
Accrued payroll	12,075,156	10,776,416
Unearned revenue	6,517,711	6,886,911
Deposits	1,530,520	1,653,621
Long-term liabilities—current portion:		
Payable to component units	1,991,156	1,940,753
Payable to others	4,854,355	3,899,065
Total Current Liabilities	\$ 44,549,960	\$ 39,070,038
Noncurrent Liabilities		
Pension Liability	\$ 22,717,420	
Payable to others	3,144,939	\$ 582,560
Long-term liabilities:		
Payable to component units	33,861,586	35,881,165
Payable to others	96,450,680	94,349,720
Total Noncurrent Liabilities	\$ 156,174,625	\$ 130,813,445
Total Liabilities	\$ 200,724,585	\$ 169,883,483
DEFERRED INFLOWS OF RESOURCES	\$ 4,519,131	\$ 230,680

Statement of Net Position - Continued on Next Page

Statement of Net Position - Continued

	<u>2015</u>	<u>2014</u>
NET POSITION		
Invested in Capital Assets, net of related debt	\$ 278,562,461	\$ 215,796,822
Restricted for:		
Nonexpendable:		
Scholarships and fellow ships	414,255	414,351
Expendable:		
Scholarships and fellow ships	165,649	153,819
Research	7,297,016	6,371,440
Instructional department uses	1,377,744	1,616,989
Loans	7,128,192	7,029,996
Capital projects	44,930	295,252
Debt service	3,460,618	8,458,246
Unrestricted	81,299,640	105,215,878
Total Net Position	<u><u>\$ 379,750,505</u></u>	<u><u>\$ 345,352,793</u></u>

North Dakota State University
Statement of Revenues, Expenses, & Other Changes in Net Position
For Years Ended June 30, 2015 & 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Operating Revenues:		
Student tuition and fees	\$ 110,778,521	\$ 106,491,251
Federal Grants and Contracts	41,554,635	44,726,127
State Grants and Contracts	8,363,527	8,328,337
Private Grants & Contracts	11,623,657	11,880,324
Sales and services of educational departments	35,517,866	35,920,553
Auxiliary enterprises	43,286,230	42,560,463
Other Operating Revenue	1,091,936	861,352
Total operating revenues	\$ 252,216,372	\$ 250,768,407
EXPENSES		
Operating expenses:		
Salaries and wages	\$ 268,589,588	\$ 254,955,104
Operating expenses	92,916,914	87,101,118
Data Processing	4,724,564	4,695,984
Depreciation Expense	21,761,642	20,714,843
Scholarships and fellow ships	2,498,685	3,115,800
Cost of Sales and services	9,658,146	9,626,280
Total operating expenses	\$ 400,149,539	\$ 380,209,129
Operating income (loss)	\$ (147,933,167)	\$ (129,440,722)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 119,487,388	\$ 122,486,870
Federal Appropriations	6,701,819	5,790,560
Federal grants and contracts	10,623,730	10,748,270
Gifts	9,204,609	7,489,167
Investment income	2,267,067	2,554,108
Interest on capital asset - related debt	(5,048,939)	(5,521,863)
Gain/(Loss) on capital assets	971,177	(954,381)
Insurance Proceeds	33,769	190,479
Tax Revenues	103,660	114,913
Other nonoperating revenues over (under) expenses	2,747,987	(32,530)
Net nonoperating revenues	\$ 147,092,267	\$ 142,865,593
Income (loss) before capital grants, gifts and transfers	\$ (840,900)	\$ 13,424,871
State appropriations - capital assets	\$ 22,709,435	\$ 7,083,135
Inter-institutional transfers		24,746
Transfer from Building Authority	(285,374)	(285,487)
Capital grants and gifts	21,973,267	6,612,857
Total other revenues (expenses)	\$ 44,397,328	\$ 13,435,251
Increase (decrease) in net position	\$ 43,556,428	\$ 26,860,122
NET POSITION		
Net Position - beginning of year, as restated	\$ 336,194,077	\$ 318,492,671
Net Position - end of year	\$ 379,750,505	\$ 345,352,793

North Dakota State University
Statement of Cash Flows
For Years Ended June 30, 2015 & 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 111,926,354	\$ 104,161,601
Grants and Contracts	62,072,430	68,910,754
Payments to suppliers	(107,551,019)	(104,161,511)
Payments to employees	(267,622,327)	(255,261,150)
Payments for scholarships and fellow ships	(2,498,685)	(3,115,800)
Loans issued to students	(1,431,864)	(1,199,468)
Collection of loans to students	1,450,580	1,220,400
Auxiliary enterprise charges	43,314,138	42,351,732
Sales and services of educational departments	35,539,366	36,251,078
Cash received (paid) on deposits	(76,330)	177,693
Other receipts (payments)	993,891	39,283
Net cash provided (used) by operating activities	<u>\$ (123,883,466)</u>	<u>\$ (110,625,388)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 118,942,171	\$ 122,444,163
Federal appropriations	6,701,819	5,790,560
Grants and gifts received for other than capital purposes	19,744,423	18,159,048
Direct Lending Receipts	51,770,123	53,187,283
Direct Lending Disbursements	(51,915,369)	(52,888,895)
Agency fund cash increase (decrease)	(228,349)	13,162
Tax revenues	103,660	114,913
Net cash provided/(used) by financing activities	<u>\$ 145,118,478</u>	<u>\$ 146,820,234</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ 33,102,299	\$ 8,448,914
Transfers (to)/from Building Authority	(285,374)	(285,487)
Capital appropriations	18,288,411	7,441,879
Capital grants and gifts received	20,860,272	6,739,501
Proceeds from sale of capital assets	1,350,000	1,385,783
Purchases of capital assets	(59,558,050)	(26,513,903)
Insurance proceeds	33,769	190,479
Principal paid on capital debt and lease	(4,990,336)	(8,691,734)
Deposits with capital debt and lease	(26,090,000)	(8,255,000)
Interest paid on capital debt and lease	(5,283,066)	(5,426,340)
Net cash provided/(used) by capital and related financing activities	<u>\$ (22,572,075)</u>	<u>\$ (24,965,908)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 19,108,777	\$ 13,181,421
Interest on Investments	2,258,726	2,304,805
Purchases of investments	(31,521,372)	(11,167,492)
Net cash provided/(used) by investing activities	<u>\$ (10,153,869)</u>	<u>\$ 4,318,734</u>
Net increase (decrease) in cash	<u>\$ (11,490,932)</u>	<u>\$ 15,547,672</u>
Cash - Beginning of year	<u>\$ 53,859,397</u>	<u>\$ 38,311,725</u>
Cash - End of year	<u>\$ 42,368,465</u>	<u>\$ 53,859,397</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>2015</u>	<u>2014</u>
Operating Income (loss)	\$ (147,933,167)	\$ (110,772,079)
Adjustments:		
Depreciation	21,761,642	18,901,210
Other nonoperating revenues (expenses)	(35,732)	(54,170)
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	1,399,288	1,338,315
Intergovernmental receivables	530,610	5,946,097
Inventories	85,130	(93,627)
Notes receivable	60,686	(50,128)
Other assets	(55,194)	(184,712)
Accounts payable and accrued liabilities adjusted for interest payable	(398,430)	(1,091,384)
Accrued payroll	1,290,278	330,603
Compensated absences	(143,047)	(1,354,243)
Deferred revenue	(369,200)	954,360
Deposits	(76,330)	47,521
Net cash provided (used) by operating activities	<u>\$ (123,883,466)</u>	<u>\$ (86,082,237)</u>

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	\$ 1,653,338	\$ 340,516
Expenses paid by capital lease	107,114	-
Gifts of capital assets	278,531	39,000
Net Increase (Decrease) in value of investments	12,355	13,000
Total non cash transactions	<u>\$ 2,051,338</u>	<u>\$ 392,516</u>

Notes to Financial Statements

JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

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

REPORTING ENTITY

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

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

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

Notes to Financial Statements

Component Units

The process of evaluating potential component units involves the application of criteria set forth in 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 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

Notes to Financial Statements

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

North Dakota State University Development Foundation is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. 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 and NDSU, as a means of

Notes to Financial Statements

maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the three universities. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. An eight-member board of directors, including the presidents of the three universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of Concordia College, Minnesota State University Moorhead and NDSU. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2015, Tri-College University had a net position of approximately \$659,877 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at North Dakota State University, Renaissance Hall, 650 NP Avenue 100, Fargo, ND 58102.

INSIGNIFICANT COMPONENT UNITS

The following organizations are component units of North Dakota State University but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than 1.0% each in total assets compared to total NDUS assets and less than 10% in payments to or from the primary institution. Separate boards of directors control these entities. In addition, the university does not exercise financial or administrative control over these entities and/or the entities' relationship with the primary institutions are not significant enough to warrant inclusion in the reporting entity's financial statements. The related organizations to NDSU at June 30, 2015 were:

NDSU Research Foundation

NDSU Team Makers, Inc.

Alliance for Arts & Humanities

RSVP Enterprise

NDSU 4H Foundation

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, issued in June and November, 1999, as amended by GASB Statement Nos. 36, 37 and 38. The System follows the "business-type activities" (BTA) reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the System's activities.

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.

Notes to Financial Statements

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.

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.

Notes to Financial Statements

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

RECEIVABLES

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

Notes to Financial Statements

INVENTORIES

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

CAPITAL AND INTANGIBLE ASSETS

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

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

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

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

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

Notes to Financial Statements

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.

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.

Notes to Financial Statements

Restatement of Beginning Net Position

	Primary Institution
Fiscal 2015	
Net Position, Beginning of the year, as previously reported	\$ 345,352,793
<u>Prior Period Adjustments:</u>	
Change in Account Method - GASB 68	(22,935,679)
Correct of error - Central Stores	13,776,963
Net Position, Beginning of the year, as previously reported	<u>\$ 336,194,077</u>

USE OF ESTIMATES

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

New Accounting Pronouncements

In fiscal year 2015, the University adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions". This statement revises accounting and financial reporting for most pensions provided to employees of state and local governments. The statement established standards for measuring and recognizing pension liabilities and expenses, as well as, deferred outflows and deferred inflows of resources related to pensions. The statement required retroactive adoption and resulted in a restatement of prior period net position of \$22.9 million.

In November 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." This statement is effective for periods beginning after June 15, 2014 and addresses contributions made by an employer to a defined benefit pension plan after the measurement date of the entity's beginning net pension liability.

In February 2015, the GASB issued Statement No. 72, "Fair Value Measurement and Application". This statement is effective for periods beginning after June 15, 2015.

In June 2015, the GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No 68, and

Notes to Financial Statements

Amendments to Certain Provisions of GASB 67 and 68.” This statement is effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”. This statement is effective for periods beginning after June 15, 2016.

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.

In June 2015, the GASB issued Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.” This statement is effective for periods beginning after June 15, 2015.

In August 2015, the GASB issued Statement No. 77, “Tax Abatement Disclosures.” This statement is effective for periods beginning after December 15, 2015.

The effect GASB Statement Nos. 72, 73, 74, 75, 76 and 77 will have on future financial statements has not yet been determined.

Note 2 – Deposits & Investments

LIMITATIONS

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

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

NDCC Sections 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Such proceeds must be invested in the Bank of North Dakota, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the federal deposit insurance corporation. The SBHE may invest such funds in direct obligations of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

NDCC Section 54-06-08 states clearing accounts and cash balances must be maintained in the Bank of North Dakota, or, if the state entity is located outside Bismarck, in another state or

Notes to Financial Statements

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 as follows:

Deposits	Carrying Amount	Bank Balance	Uninsured Bank Balance (A)	(B)	(C)
Total Cash Deposits at BND	27,793,227	33,204,030	33,204,030		
CDs at BND	80,000,000	80,000,000	80,000,000		
Total Cash Deposits at Other	14,486,913	14,260,305		13,642,354	106,552
CDs at Other					
Total Deposits	122,280,140	127,464,335	113,204,030	13,642,354	106,552
Cash on Hand/Petty Cash	88,325				
Less amts reported as investments	(80,000,000)				
Cash & Cash Equ-SNA	42,368,465				

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to it. The System does not specifically address policies concerning custodial credit risk and while the deposits in the Bank of North Dakota are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2014, \$358.8 million of the System's bank balance of \$361.6 million was exposed to custodial credit risk as follows:

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

Notes to Financial Statements

Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2015, as shown below:

		Maturities from June 30			
Account	Market Value	Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
Debt Securities:					
US Treasuries	\$ 705,182		\$ 705,182		
US Strips	50,007				
Mutual Bond Funds					
Money market mutual funds	11,074,328	11,074,328			
Total Securities w/ Maturities	\$ 11,829,517	\$ 11,074,328	\$ 705,182	\$ -	-
Other Invest Types:					
Stocks	\$ 1,271,815				
Equity Mutual Funds	41,070				
BND Cd's Credit risked as investments but reported as deposits	80,000,000				
Non-BND Cd's Credit risked as investments but reported as deposits					
Investment in Real Estate					
Alternate Investments	56,984				
Total reported on SNA	\$ 93,199,386				

Interest Rate Risk

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

Notes to Financial Statements

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2015, the University's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

Investment Type	Market	Credit Quality Rating	
	Value	AAA	Not Rated
Debt Securities:			
Mutual Bond Funds			
Money market mutual funds	\$ 11,074,328	\$ 11,074,328	\$ 12,509
Other	755,188		755,188
Total	\$ 11,829,516	\$ 11,074,328	\$ 767,697

Note 3 – Receivables

Receivables at June 30, 2015 consist of the following amounts:

	Current	NonCurrent	Total
Student & General	\$ 13,467,488		\$ 20,833,248
Interest Receivable	241,660		461,819
Allow ance for doubtful Accts	(3,566,016)		(5,646,876)
Total Accounts Receivable, Net	\$ 10,143,132		\$ 10,143,132
Grants & Contracts Receivable	\$ 12,269,856		\$ 29,310,986
Due from Other State Agencies	2,980,844		2,980,844
Total Grants & Contracts Receivable, Net	\$ 15,250,700		\$ 15,250,700
Student	\$ 1,642,095	\$ 5,880,972	\$ 7,523,067
Allow ance for Doubtful Notes	(219,180)	(789,006)	(1,008,186)
Total Notes Receivable, Net	\$ 1,422,915	\$ 5,091,966	\$ 6,514,881

Notes to Financial Statements

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 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, 2015 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 7,624,932		\$ 4,402		\$ 7,620,530
Construction in Progress	15,824,741	\$ 37,580,225		\$ (9,413,073)	43,991,893
Total non-depreciable capital assets	\$ 23,449,673	\$ 37,580,225	\$ 4,402	\$ (9,413,073)	\$ 51,612,423
Land Improvements/infrastructure	\$ 50,237,117	\$ 3,404,864	\$ 82,970		\$ 53,559,011
Buildings	402,692,970	14,129,819	\$ 4,758,078	\$ 9,413,073	421,477,784
Furniture, fixtures, and equipment	125,025,681	10,605,982	\$ 2,388,249		133,243,414
Intangibles:					
Computer Software	908,260	214,232	7,119		1,115,373
Other	642,410				642,410
Library Materials	17,352,325	95,401	526,924		16,920,802
Total Depreciable Capital Assets	\$ 596,858,763	\$ 28,450,298	\$ 7,763,340	\$ 9,413,073	\$ 626,958,794
Less accumulated depreciation and amortization					
Land Improvements/infrastructure	\$ 33,448,343	\$ 1,244,151	\$ 82,970		\$ 34,609,524
Buildings	154,721,815	10,667,908	\$ 4,418,833		160,970,890
Furniture, fixtures, and equipment	68,520,941	8,931,497	1,719,809		75,732,629
Intangibles:					
Computer Software	675,431	129,218			804,649
Other	155,149				155,149
Library Materials	13,625,478	788,868	526,924		13,887,422
Total Accumulated depreciation and amortization	\$ 271,147,157	\$ 21,761,642	\$ 6,748,536	\$ -	\$ 286,160,263
Total Depreciable Capital Assets, net	\$ 325,711,606	\$ 6,688,656	\$ 1,014,804	\$ 9,413,073	\$ 340,798,531
Capital Assets, net	\$ 349,161,279	\$ 44,268,881	\$ 1,019,206	\$ -	\$ 392,410,954

Notes to Financial Statements

Construction in progress for the year ended June 30, 2015 was as follows:

Project	Amount Authorized	Expended (CIP Balance)	Expended (non-capitalized)	Authorized Balance
Building Projects:				
Bison Sports Arena/SHAC	\$ 41,000,000	\$ 23,157,616	\$ 274,112	\$ 17,568,272
SHAC FFE	2,960,243	98,989		2,861,254
STEM Classroom Building	29,367,709	13,942,968		15,424,741
STEM FFE	300,000	15,556		284,444
Aquatic Center	11,000,000	608,847		10,391,153
ND 4-H Camp	2,600,000	2,156,121		443,879
Langdon Agronomy Lab	1,225,000	1,185,310		39,690
Carrington Agronomy Lab	2,500,000	2,380,678		119,322
Central Grasslands Agronomy Lab	400,000	34,345		365,655
Ag Service Center	968,000	73,397	7,614	886,989
Carrington Shop Facility	350,000	338,066		11,934
Construction in Progress Total	\$ 92,670,952	\$ 43,991,893	\$ 281,726	\$ 48,397,333

Notes to Financial Statements

Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2015:

Accounts Payable	\$ 12,472,436
Due to other state agencies	301,016
Sales Tax Payable	(417)
Accrued Interest	946,813
Contractor Payable/Retainage	3,546,234
Total Payables & Accrued Liabilities	<u>\$ 17,266,082</u>

Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2015 are as shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Bonds Payable	\$ 75,270,000	\$ 30,550,000	\$ 28,355,000	\$ 77,465,000	\$ 3,150,000	\$ 74,315,000
Due to CU - Bonds Payable	19,975,000		1,015,000	18,960,000	1,055,000	17,905,000
Capital Leases	7,081,775	1,653,338	729,124	8,005,989	769,129	7,289,065
Due to CU - Capital Leases	17,846,918		901,970	16,944,948	936,156	15,956,587
Special Assessments	2,180,687	107,114	79,242	2,208,559	78,752	2,129,807
Compensated Absences	13,716,327		143,046	13,573,281	856,474	12,716,807
Total	<u>\$ 136,070,707</u>	<u>\$ 32,310,452</u>	<u>\$ 31,223,382</u>	<u>\$ 137,157,777</u>	<u>\$ 6,845,511</u>	<u>\$ 130,312,266</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, 2015 is presented below and the detail is presented in the Supplementary Information section following these notes.

Notes to Financial Statements

Bond Issue	Date of Issue	Maturity Date	Original Amount of Issue	Bonds Outstanding 6/30/14	New Bonds issued this Fiscal Year	Refunding Bonds	Bond Principal paid this Fiscal Year	Bonds Outstanding 6/30/15
Housing and Auxiliary System Revenue Bonds:								
2005 Memorial Union Addition	8/1/2005	4/1/2035	\$ 18,700,000	\$ 16,150,000		\$ (15,665,000)	\$ 485,000	
2006A Wellness Center Addition	5/1/2006	4/1/2036	9,990,000	8,455,000		(8,220,000)	235,000	
2006B Wellness Center Refunding(Series 1999)	5/1/2006	4/1/2029	2,845,000	2,315,000		(2,205,000)	110,000	
2007 Living Learning Center East/Ceres Hall	7/31/2007	4/1/2037	12,000,000	10,710,000			260,000	\$ 10,450,000
2009 Niskanen/West Dining Center	7/29/2009	4/1/2039	26,245,000	24,225,000			545,000	23,680,000
2012A Refunding (Series 2002 LLC Bonds)	3/1/2012	4/1/2027	5,730,000	5,075,000			340,000	4,735,000
2014A Refunding (Series 2004 Bison Court)	4/1/2014	4/1/2034	8,340,000	8,340,000			290,000	8,050,000
2015A Refunding (Series 2005, 2006A & B)	2/5/2015	4/1/2036	21,195,000			21,195,000		21,195,000
2015B Aquatic Addition (Series 2004 Bison Court)	6/24/2015	4/1/2035	9,355,000		9,355,000			9,355,000
Subtotal - NDSU			\$ 114,400,000	\$ 75,270,000	\$ 9,355,000	\$ (4,895,000)	\$ 2,265,000	\$ 77,465,000
NDSU Research & Tech Park, Inc.								
Series 2007A, Research 1 (Refunding Series 2000)	1/25/2007	4/1/2022	\$ 4,535,000	\$ 3,490,000			\$ 380,000	\$ 3,110,000
Series 2007B, Research 2 (Refunding Series 2002)	1/25/2007	4/1/2032	17,715,000	16,485,000			635,000	15,850,000
Subtotal - NDSU Research & Tech Park, Inc.			\$ 22,250,000	\$ 20,940,000			\$ 1,015,000	\$ 18,960,000
GRAND TOTAL BONDS PAYABLE			\$ 143,150,000	\$ 98,270,000	\$ 9,355,000	\$ (4,895,000)	\$ 3,280,000	\$ 96,425,000

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 \$21.195 million of Housing and Auxiliary Revenue Refunding Bonds (Series 2015A) with a coupon interest rate of 3.0 percent to 5.0 percent. The bonds were used to recall \$16.2 million, \$8.5 million and \$2.3 million of outstanding Series 2005, Series 2006A, Series 2006B Housing and Auxiliary Revenue bonds, respectively. The bonds were refunded to reduce total debt service payments over the next 20 years by approximately \$9.4 million. The economic gain realized as a result of the refunding was \$5,297,981.

Notes to Financial Statements

Scheduled Maturities of Bonds Payable

Fiscal Year	Principal	Interest	Total
2016	\$ 4,205,000	\$ 4,066,913	\$ 8,271,913
2017	4,540,000	3,855,128	8,395,128
2018	4,690,000	3,697,473	8,387,473
2019	4,855,000	3,529,555	8,384,555
2020	5,015,000	3,366,080	8,381,080
2021 - 2025	24,805,000	13,620,096	38,425,096
2026 - 2030	21,090,000	8,728,208	29,818,208
2031 - 2035	19,190,000	4,367,083	23,557,083
2036 - 2040	8,035,000	934,238	8,969,238
	<u>\$ 96,425,000</u>	<u>\$ 46,164,774</u>	<u>\$ 142,589,774</u>

Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2015.

Note 10 – Capital Leases

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

Notes to Financial Statements

A summary of the Capital Lease & Due to Component Unit activity for fiscal 2015 is as follows:

LEASE	Lease Start		Terms (in Months)	PRINCIPAL BALANCE DUE 7/1/2013	PRINCIPAL NEW LEASES	PRINCIPAL PAID	PRINCIPAL BALANCE DUE 6/30/2014
NUMBER	Date	DESCRIPTION					
Capital Leases							
0527	11/12/08	Wells Fargo-Athletic Field Turf	96	\$ 211,857		\$ 66,913	\$ 144,944
0573	06/24/12	Bank of America-Energy Savings Performance Contract	168	6,427,727		441,454	5,986,272
0554	06/10/10	Wells Fargo-Maxxum 125 MFD Loader	49	8,305		8,305	-
0568	12/21/10	Wells Fargo-New Case 440 Skidsteer	49	4,766	\$ (4,766)		-
0571	06/02/11	Wells Fargo-John Deere 444 K 2011 Loader	39	14,881		14,881	-
0572	03/11/11	Wells Fargo-2007 Case IH MX245 MFD Tractor	53	20,018		9,772	10,246
0584	03/15/12	Wells Fargo-Truax FLEXII Drill, Model FLXII-812RD	60	13,106		4,200	8,906
0585	06/30/12	Wells Fargo-Zurn 150 Demo Plot Combine	49	48,368		15,326	33,042
0587	07/01/12	Wells Fargo-New Holland Long Reach Cab	49	57,135		28,064	29,071
0590	09/15/12	Wells Fargo-Zurn 150 Plot Combine	48	61,251		19,430	41,821
0598	09/01/13	Wells Fargo-Audio Visual Equipment	36	84,282		41,479	42,803
0601	10/17/13	Liberty Business Systems - Lanier Production Printer Pro 1107E	24	27,786		22,486	5,300
0608	07/15/14	Wells Fargo-Two Skid Steers, NHL L220; Blow Hard Bunk Clean	60	62,882		12,892	49,990
0609	05/21/14	Wells Fargo-Case IH 2WD 85C Farmall Tractor	45	39,410		12,914	26,496
0611	01/13/14	Wells Fargo-Audio Visual Equipment	30	52,205		25,265	26,940
0612	08/18/14	Wells Fargo-New Zurn 150 Plot Combine	48		239,514		239,514
0613	07/14/14	Wells Fargo-2014 Case SR250 Skid Steer	65		28,146	5,741	22,405
0619	09/30/14	Wells Fargo-New Case 1H Patriot 2240 Sprayer w/attachments	59		150,500		150,500
0622	07/30/14	Wells Fargo-Dakota Field Athletic Bubble	62		1,239,944		1,239,944
				\$ 7,133,980	\$ 1,653,338	\$ 729,123	\$ 8,058,194
Due to Component Units - Capital Leases							
0465	10/10/05	NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF	180	\$ 1,829,713		\$ 246,970	\$ 1,582,743
0476	11/29/07	NDSU Development Foundation-Renaissance Hall	303	5,005,000		210,000	4,795,000
0586	11/29/07	US Bank for NDSU Development Foundation-Barry & Klai Hall	295	10,960,000		445,000	10,515,000
				\$ 17,794,713	\$ -	\$ 901,970	\$ 16,892,743
		Grand Total		\$ 24,928,693	\$ 1,653,338	\$ 1,631,093	\$ 24,950,937

Notes to Financial Statements

Scheduled Maturities of Capital Leases & Due to Component Units

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,705,285	\$ 823,072	\$ 2,528,357
2017	1,911,834	819,545	2,731,379
2018	1,843,084	747,048	2,590,133
2019	1,902,601	680,781	2,583,382
2020	1,898,356	609,593	2,507,949
2021 - 2025	7,028,684	2,215,547	9,244,231
2026 - 2030	4,696,093	1,164,980	5,861,073
2031 - 2035	2,780,000	503,680	3,283,680
2036 - 2040	1,185,000	47,900	1,232,900
	<u>\$ 24,950,937</u>	<u>\$ 7,612,146</u>	<u>\$ 32,563,083</u>

Note 11 – Other Long-Term Liabilities

SPECIAL ASSESSMENTS

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

Scheduled Maturities of Special Assessments

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 78,752	\$ 112,021	\$ 190,773
2017	82,248	107,889	190,137
2018	84,304	103,578	187,882
2019	89,693	99,250	188,943
2020	90,657	94,487	185,144
2021 - 2025	488,120	401,777	889,897
2026 - 2030	606,142	265,471	871,613
2031 - 2035	673,337	105,141	778,478
2036 - 2040	15,306	1,633	16,939
	<u>\$ 2,208,559</u>	<u>\$ 1,291,247</u>	<u>\$ 3,499,806</u>

Notes to Financial Statements

Compensated Absences

The compensated absences liability as of June 30, 2015 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, 2015 and 2014 totaled \$13,135,949 and \$13,716,327, 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, 2015 consist of the following:

Deferred Outflows	
Pension	\$ 4,396,245
Debt Refunding	970,218
	<u>\$ 5,366,463</u>
Deferred Inflows	
Pension	\$ 4,434,533
Debt Refunding	3,733
Grant amounts received prior to meeting time requirements	80,865
	<u>\$ 4,519,131</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 brief 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.

Notes to Financial Statements

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.

Pension Benefits

Benefits are set by statute. NDPERS has no provision 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). The annual 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

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

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% and employer contribution rates are 7.12% of covered compensation.

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

At June 30, 2015, NDSU reported a liability of \$22.9 million for its proportionate share of the net pension liability.

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The NDUS proportion of the net pension liability was based on the NDUS share of covered payroll in the Main System pension plan relative to the covered payroll of all participating NDPERS employers. At June 30, 2014, the proportion for NDSU was 3.579117%.

For the year ended June 30, 2015, the total recognized pension expense for each institution was \$2,247,755.

At June 30, 2015, NDUS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflow of Resources:

Difference between expected and actual experience	\$ 736,532
Employer contributions subsequent to the measurement date	3,659,713
Total	\$ 4,396,245

Employer contributions made subsequent to the measurement date of \$11.5 million are reported as deferred outflows of resources and a reduction of pension expense at June 30, 2015. These contributions will be reported as a reduction of net pension liability in the year ended June 30, 2016.

Deferred Inflow of Resources:

Net difference between projected and actual earnings on pension plan investments	\$ 4,434,533
Total	\$ 4,434,533

Notes to Financial Statements

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate: The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount

Notes to Financial Statements

rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

1% Decrease (7.00%)	\$ 35,038,997
Current Discount Rate (8.00%)	\$ 22,717,421
1% Increase (9.00%)	\$ 12,418,598

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report at <http://www.nd.gov/ndpers/employers/docs/gasb/pers2014gasbwapp20150807.pdf>.

TIAA-CREF Retirement Plan

Description of Plan

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

Funding Policy

The plan requires employee and employer contributions be based on a classification system and years of service based on the following schedule. Beginning, January 1, 2014 contributions in class I and II increased from 3.5 percent to 4.5 percent for participant contributions and from 11.5 percent to 12.5 percent for institution contributions for employees with zero to ten years of service. Contributions for employees with more than ten years of service increased from 4.0 percent to 5.0 percent for participant contributions for employee contributions and from 12.0 percent to 13.0 percent for institution contributions.

Employment Class	Years of Service	Contributions by the Participant	Contributions by the Institution
I	0 thru 10	4.5%	12.5%
	over 10	5.0%	13.0%
II	0 thru 2	3.5%	7.5%
	3 thru 10	4.5%	12.5%
	over 10	5.0%	13.0%
President/Chancellor (additional employer contribution)	0 thru 12	0.0%	8.33%*
	or		
	less than 3	0.0%	0.0%
	3 to less tan 6	0.0%	4.0%
	6 yrs and over	0.0%	8.0%

Notes to Financial Statements

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The North Dakota University System has no further liability once annual contributions are made. NDSU contributed \$15.9 million and \$14.6 million to TIAA-CREF during the fiscal years ending June 30, 2015 and 2014, respectively.

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% of covered compensation.

There are approximately 860 retired North Dakota University System employees receiving these benefits and 3,408 active employees with retiree health credit. The actuarially determined required employer contribution of \$1.183 million for the year ended June 30, 2015 is 1.14 percent of the covered payroll. North Dakota State University's actual and required contributions for the fiscal years ending June 30, 2014 and 2013 were \$367,411 and \$358,393, respectively.

As of June 30, 2015 there was \$99.1 million in net position available for benefits under the state retiree health insurance credit plan. The actuarially accrued liability was \$128.9 million and the underfunded actuarially accrued liability was \$39.5 million at June 30, 2015.

Termination Benefits

Early Retirement Agreements

When early retirement is deemed to be in the mutual benefit of an employee and the University System, the SBHE has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, the chancellor, vice chancellors, other system office professional staff, presidents, executive deans, vice president, provosts, deans, and other officers responsible for a major unit of an institution who report directly to a president, vice president, provost, or executive dean who are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2015, twenty three employee's elected early retirement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100 percent of the employee's final contract salary if the sum of the employee's age and total years of employment equals 70 or greater. Payments will be pursuant to the approved agreement, but cannot be made until at least 90 days after the date of Early Retirement Agreement. During the fiscal year ended June 30, 2015, 39 University System employees elected to participate in this option. Policy 703.1 also allows the early retirement agreements to retain the retiree on the applicable group health and life insurance plan. Payment by the institution of premiums is negotiable. Total cost to the institutions for these termination benefits will be \$138,208 over the term of the contracts. Amounts payable to employees at June 30,

Notes to Financial Statements

2015 for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$241,000, assuming health insurance premium increases ranging from 7.5 percent to 10 percent and a discount rate of 0.05 percent.

Under the Phased Retirement Option, retirement is over a period of time. The percentage of workload each year is negotiated. The campus may pay all or any part of the retirement contributions on the current salary or any part of the individual's salary until the individual terminates all employment. During the fiscal year ended June 30, 2015, 17 University System employees participated in this option. Total cost to the institutions for these termination benefits will be \$560,000 over the term of the contracts. Amounts payable to employees at June 30, 2015 for outstanding contract buyouts and future health and life premiums adjusted for projected health insurance premium increases and discounted to the present were \$380,000, assuming health insurance premium increases ranging from 7.5 percent to 10 percent and a discount rate of 0.05 percent.

There were six other early retirement agreements that were not tenured contract or phased retirement. Total cost to the institutions for these termination benefits will be \$171,000 over the term of the contracts. Amounts payable to employees at June 30, 2015 for outstanding contract buyouts and future health and life premiums adjusted for projected health insurance premium increases and discounted to the present were \$73,000, assuming health insurance premium increases ranging from 7.5 percent to 10 percent and a discount rate of 0.05 percent.

Note 15 - Construction Commitments and Financing

The University has contracted for the construction of various projects as of June 30, 2015. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Notes to Financial Statements

Project	Contracts Awarded	Expended Through June 30, 2015	Total Cost To Complete	Funding for remaining costs			
				Federal Sources	State Sources	Institutional Funds	Other Sources
Main Campus							
Bison Sports Arena (SHAC)	\$ 35,465,800	\$ 18,341,408	\$ 17,124,392				\$ 17,124,392
STEM Bldg	24,782,304	10,176,178	14,606,126		\$ 14,606,126		
Stevens Hall Remodel	978,480	507,408	471,072		208,675	\$ 262,397	
Heating Plant Boiler Replacement	2,531,569	694,821	1,836,748		1,836,748		
KKB FLC Footing Stabilization Project	535,813	96,095	439,718		439,718		
QBB Electrical Upgrades	695,000	174,398	520,603		520,603		
Library Entryway/Circulation	1,480,719	123,749	1,356,970			1,356,970	
Ehly Hall Renovation	2,147,485	1,029,043	1,118,442			1,118,442	
Music Bldg. South Entry Replacement	230,590	31,780	198,810			198,810	
Engineering Renovation (Architecture)	1,628,090		1,628,090			1,628,090	
Wallman Wellness Aquatic Center	9,691,798	41,996	9,649,802				9,649,802
Reed Hall Bathroom Renovation Phase I	842,780	309,084	533,696				533,696
T Lot Expansion / Thordarson Demo	290,922	105,682	185,240				185,240
MU Lot Expansion	335,587	20,729	314,858				314,858
R Lot Expansion	868,044	131,981	736,063				736,063
Mem Union Dining Center & Upper Floor Fit t	808,683	74,743	733,940				733,940
Experiment Station & RE Centers							
Carrington Shop Facility	345,419	338,066	7,353		7,353		
Agronomy Lab - Carrington REC	2,415,165	2,326,682	88,483		88,483		
Agronomy Lab - Langdon REC	1,129,260	1,114,716	14,544		14,544		
Agronomy Lab - Central Grasslands REC	38,243	28,413	9,830		9,830		
4-H Camp	2,259,124	2,048,757	210,368				210,368
Ag Service Center	773,074	55,436	717,638				717,638
Grand Totals	\$ 90,273,949	\$ 37,771,164	\$ 52,502,784	\$ -	\$ 17,732,079	\$ 4,564,709	\$ 30,205,997

Note 16 - Component Unit Transactions

MAJOR COMPONENT UNITS

NDSU Research and Technology Park, Inc.

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

On November 1, 2000, RTP entered into a \$6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. On August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second Research Building. The second lease agreement was for \$20.5 million.

Notes to Financial Statements

On January 25, 2007, the city of Fargo, on behalf of the RTP, issued \$4.735 million of Series 2007A (Research 1) and \$18.1 million of Series 2007B (Research 2) Lease Revenue Refunding Bonds. These bonds are used to advance refund the callable maturities of both the Series 2000 (Research 1) and Series 2002 (Research 2) bonds and to pay the costs of issuance (including the insurance premium for the insurance policy and the reserve fund surety bond) relating to bonds for both Series 2007A and 2007B bonds. During the year ended June 30, 2011, the Series 2000 bonds were repaid in full with the funds held in escrow from the Series 2007A bond refinancing. During the fiscal year ended June 30, 2012, the Series 2002 bonds were repaid in full with the funds held in escrow from the Series 2007A bond refinancing.

The audited financial statements of RTP for fiscal year 2015 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

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

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

Other Transactions

During fiscal 2015 NDSU made other payments to the RTP that were unrelated to the building leases for Research #1 & #2. These payments consist of the following: 1) \$31,100 for an operating lease for lab space and miscellaneous charges in the RTP's Technology Incubator Building; 2) \$181,000 for sponsorship of an RTP event called "Innovation Challenge '15" (\$86,000 from grant sub-awards and \$95,000 for additional event sponsorship). Also, during fiscal year 2015, the RTP paid NDSU a total of \$48,583 as reimbursement of NDSU operating expenses.

NDSU Development Foundation

Fargodome Lease and Improvements

In fiscal year 2006, the NDSUDF financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The NDSUDF has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSUDF for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the NDSUDF incident to the lease, less any contributions received by the NDSUDF for the project. Under this agreement in fiscal year 2015, the NDSUDF paid the debt service and other fees on behalf of NDSU in the amount of \$336,046.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSUDF. NDSU has also recorded a capital asset and a capital

Notes to Financial Statements

lease payable, reflected as "Due to Component Units" by NDSU, of \$1.582 million as of June 30, 2015. Since the NDSUDF is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

Renaissance Hall

The former Northern School Supply building was donated to the NDSUDF by NDSU alum in December of 2001. During fiscal year 2003 and 2004, the NDSU Development Foundation renovated the building with the intent to lease the facility to NDSU beginning fall 2004. The NDSUDF transferred nearly the entire ownership of the building to 650 NP Avenue, LLC and Kilbourne Design Group, LLC, for a five year period in order to achieve tax credits that would ultimately reduce the cost of the building to NDSU. During the five-year tax credit period, NDSU leased the building from the two LLCs, with the lease payments composed of interest and fees. With the five-year tax credit period ending December 31, 2010 (as extended), and the ownership was transferred back to the NDSUDF, permanent financing was put in place on December 17, 2010, with the issuance of \$5.65 million of 20-year University Facilities Lease Revenue Bonds, Series 2010 (Renaissance Hall Project). The financing structure involving the five-year temporary ownership transfer resulted in achieving tax credits of \$4.9 million which directly lowered the leasing cost to NDSU.

Under this refinanced debt issuance and lease agreement, as approved by the 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 NDSUDF incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the NDSUDF \$407,109 in fiscal year 2015 for debt service under this agreement. As of June 30, 2015 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$4.795 million.

Barry Hall Business Building and Klai Hall Architecture Building

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

Notes to Financial Statements

In May 2012, the NDSUDF refinanced the original bonds issued in November 2007. As a result new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds, including the portion originally planned to be paid from the collections of pledges. During fiscal year 2015, NDSU paid \$778,745 to the NDSUDF under the new leases for debt service on Barry Hall & Klai Hall. During fiscal year 2015, the NDSUDF paid \$282,716 to NDSU from the collection of pledges. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2015 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$10.515 million and the portion payable by the NDSUDF to NDSU for the collection of pledges is recognized by NDSU as a current & non-current "Due from Component Units" for \$631,235.

Other Transactions

NDSU also has agreements in place with the NDSUDF for maintenance of the University's alumni records, for use and insurance on certain land and building. Amounts paid by NDSU under these agreements as of June 30, 2015 totaled \$878,544.

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

Note 17 – On-Behalf Payments

No on-behalf payments at NDSU in fiscal 2015.

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, 2015, using the "functional classification" are presented below:

Operating Expenses	
Instruction	\$ 95,395,165
Academic Support	29,996,749
Student Services	33,491,113
Institutional Support	14,874,103
Physical Plant	29,606,774
Scholarships & Fellowships	14,723,294
Auxiliary Services	35,974,110
Public Service	33,743,104
Research	90,583,485
Depreciation & Amortization	21,761,642
Total	<u>\$ 400,149,539</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, 2015, amounted to \$2.2 million.

Future Minimum Lease Payments at June 30, 2015:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2016	\$ 2,025,858
2017	1,534,724
2018	1,155,330
2019	418,243
2020	49,232
Total	<u>\$ 5,183,387</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.

Minard Hall

Minard Hall is the largest academic facility located in the historical district on NDSU's campus. Legislative appropriations were approved for the 2007-09 and 2009-11 biennia for the renovation and an addition to Minard Hall. Original authorized funding for the project is \$18.0 million: \$17.5 million general funds and \$500,000 special/local funds.

Minard Hall experienced an unprecedented partial collapse of the north wall in the early morning hours of December 27, 2009. The partial collapse of Minard Hall's North wall, during the construction of the legislatively approved addition, resulted in a delay in the completion of the project, increased costs for construction and legal expenses, as well as numerous other issues, such as relocation of faculty, staff, and classroom space.

Notes to Financial Statements

The SBHE approved in December 2010, plans to expand the original scope and timeline of the Minard Hall capital improvement project and subsequent collapse to include NDSU seeking legislative authorization and funding. Minard Hall construction is complete, and the building has been in full operation since the Fall 2013-14 academic term.

NDSU requested and was approved by the SBHE in November 2011 and North Dakota Legislative Budget Section in December 2011 to increase the project authorization of the Minard Hall project by \$4,874,300 from \$18,000,000 to \$22,874,300 under NDCC 48-01.2-25 and to authorize under NDCC 15-10-12.3 the additional funding from insurance proceeds, legal settlements, and other available funds.

During the 64th Regular Legislative Assembly, NDSU sought and received an additional \$600,000 in project authorization due to the filing of a lawsuit by a contractor against NDSU. Authorization was increased from \$22,874,300 to \$23,474,300 for related costs. In July 2015, all three litigations relating to the Minard Hall project were settled by NDSU pursuant to authority granted by the SBHE. As a result of the settlements, NDSU paid one contractor the sum of \$220,000 and NDSU received from various other entities the sum of \$3,020,000. All settlement payments have been made, and the litigations have been dismissed.

Legal settlement proceeds will be less than the total expenditures on the project, and NDSU will seek direction from the NDUS Chancellor for options to pay the deficit of \$1,634,853 including a possible request for a deficiency appropriation.

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.

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.

Notes to Financial Statements

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, 2015 is \$324,318.

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

As of June 30, 2015 the University had a negative net position balance in excess of \$100,000.

Fund 28100 – Minard Hall Collapse Related Costs - Deficit balance at June 30, 2015 was \$1,625,343.

These are costs related to the additional project authorization of \$4.874 million approved by the SBHE. The costs include collapse related change orders, department relocation, forensic and legal costs. In November 2011, the SBHE authorized NDSU to carry a deficit fund balance and authorized NDSU to take any necessary action, including litigation, to seek recovery of damages, expenses, and costs resulting from the collapse, with any recovery being used to offset the ongoing costs of Minard Hall or, if the project is complete at the time of recovery, to reimburse the State of ND for the costs of the project to the extent that recovery dollars are available, following consultation with the Chancellor. In June 2015, a settlement of \$3,020,000 was recognized as revenue bringing the June 30, 2015 deficit down to \$1,625,343. Per SBHE approval, NDSU plans to seek a state deficiency appropriation in the 2017 legislative session to fund the remaining deficit.

Note 24 – Subsequent Events

No subsequent events at NDSU.

North Dakota State University
Supplementary Information - Component Units
Statement of Financial Position
For Year Ended June 30, 2015

FASB BASIS

	Major Component Units	
	NDSU	NDSU Research
	Development Foundation	& Technology Park
	December 31, 2014	June 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,558,012	\$ 2,533,008
Short-term investments	10,035,199	
Accounts receivable, net		61,685
Unconditional promises to give, net	8,252,123	2,500
Inventories	47,881	
Other assets	8,652,119	26,082
Total Current Assets	\$ 44,545,334	\$ 2,623,275
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 8,280,526	
Investments, net of current portion	\$ 129,320,346	
Real estate held for investment, net	37,673,181	
Endowment Investments		
Contracts for deed and notes receivable,	1,027,011	
Long term pledges receivable	23,604,368	\$ 6,000
Notes Receivable, net		6,490,000
Other noncurrent assets	567,757	343,848
Capital assets, net	3,472,524	23,858,141
Total Noncurrent Assets	\$ 203,945,713	\$ 30,697,989
Total Assets	\$ 248,491,047	\$ 33,321,264

Statement of Financial Position - Continued on Next Page

Statement of Financial Position - Continued

FASB BASIS

	Major Component Units	
	NDSU	NDSU Research
	Development	& Technology
	Foundation	Park
	December 31, 2014	June 30, 2015
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 989,802	\$ 210,746
Payable to Primary Institution	1,806,537	
Accrued payroll		20,283
Current portion of split-interest agreement	935,364	
Deferred revenue	43,463	
Other current liabilities	399,741	
Long-term liabilities—current portion	1,363,103	1,132,325
Total Current Liabilities	\$ 5,538,010	\$ 1,363,354
Noncurrent Liabilities		
Long-term portion of split-interest agreement	6,048,817	
Other noncurrent liabilities		
Long-term liabilities	17,251,666	24,848,702
Total Noncurrent Liabilities	\$ 23,300,483	\$ 24,848,702
Total Liabilities	\$ 28,838,493	\$ 26,212,056
NET POSITION		
Temporarily restricted	\$ 51,835,434	\$ 8,500
Permanently restricted	131,244,146	
Unrestricted	36,572,974	7,100,708
Total Net Position	\$ 219,652,554	\$ 7,109,208

North Dakota State University
Supplementary Information - Component Units
Statement of Activities
For Year Ended June 30, 2015

FASB BASIS

	Major Component Units	
	NDSU Development Foundation 2014	NDSU Research & Technology Park June 30, 2015
Support and revenue		
Gifts and contributions	\$ 40,018,738	\$ 379,966
Investment Income	4,819,603	4,598
Net realized and unrealized gains (losses) on investments	2,404,984	
Program and event income		138,350
Other Income	1,265,889	2,791,701
Total support and revenue	\$ 48,509,214	\$ 3,314,615
Expenses		
Program Services	\$ 17,561,798	\$ 1,176,242
Supporting Services	7,800,457	1,583,537
Fund raising expense		
Total expenses	\$ 25,362,255	\$ 2,759,779
Change in Split-Interest Agreement	\$ (515,463)	\$ -
Change in Net Assets	\$ 22,631,496	\$ 554,836
Net Position, Beginning of Year	\$ 197,021,058	\$ 6,554,372
Net Position, End of Year	\$ 219,652,554	\$ 7,109,208