

NDSU

NORTH DAKOTA STATE UNIVERSITY

Annual Financial Report
June 30, 2016

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Prepared by the North Dakota State University Accounting Office

North Dakota State University

Management's Discussion and Analysis

JUNE 30, 2016

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, 2016. It is designed to focus on current year activities in an effort to assist readers in understanding how those activities impacted the accompanying financial statements.

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

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

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

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

Background Information

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

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 \$625 million and total liabilities of \$198 million, and a net position total of \$429 million (an increase of \$50 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, 2016 and 2015:

	2016	2015	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 101,225,795	\$ 98,250,364	\$ 2,975,431	3%
Other non-current assets	86,011,574	88,966,440	(2,954,866)	-3%
Capital assets, net	437,961,985	392,410,954	45,551,031	12%
Total assets	<u>\$ 625,199,354</u>	<u>\$ 579,627,758</u>	<u>\$ 45,571,596</u>	<u>8%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,370,010</u>	<u>\$ 5,366,463</u>	<u>\$ 3,547</u>	<u>0%</u>
LIABILITIES				
Current liabilities	\$ 47,022,531	\$ 44,549,960	\$ 2,472,571	6%
Noncurrent liabilities	151,033,765	156,174,625	(5,140,860)	-3%
Total liabilities	<u>\$ 198,056,296</u>	<u>\$ 200,724,585</u>	<u>\$ (2,668,289)</u>	<u>-1%</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 3,016,333</u>	<u>\$ 4,519,131</u>	<u>\$ (1,502,798)</u>	<u>-33%</u>
NET POSITION				
Invested in capital assets, net	\$ 323,338,473	\$ 278,562,461	\$ 44,776,012	16%
Restricted	19,149,818	19,888,404	(738,586)	-4%
Unrestricted	87,008,442	81,299,640	5,708,802	7%
Total net position	<u>\$ 429,496,733</u>	<u>\$ 379,750,505</u>	<u>\$ 49,746,228</u>	<u>13%</u>
Current Ratio (current assets to current liabilities)	<u>2.2</u>	<u>2.2</u>		
Primary Reserve Ratio (expendable net assets to operating expenses)	<u>0.26</u>	<u>0.25</u>		

The increase in capital assets in fiscal 2016 is due to capitalization of major construction projects during the year. This change also impacted the Invested in Capital Assets line item under the Net Position category.

Overall changes in current and non-current assets and liabilities were relatively small. Current and Primary Reserve Ratios changed very little as a result of the minor fluctuations in current and non-current assets and liabilities.

Deferred Inflows of Resources dropped about 33% due to the allocated share deferred inflows from the state's share of pension liability, as recorded under GASB Statement No. 68. Deferred Outflows changed very little during the year.

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Student tuition and fees	\$ 114,588,546	\$ 110,778,521	\$ 3,810,025	3%
Grants, contracts, (operating and nonoperating)	91,207,393	100,840,635	(9,633,242)	-10%
State appropriations (operating and nonoperating)	156,433,146	142,196,823	14,236,323	10%
Sales and services of educational departments	33,882,633	35,517,866	(1,635,233)	-5%
Auxiliary enterprises	44,101,630	43,286,230	815,400	2%
Gifts	11,932,176	9,204,609	2,727,567	30%
Other, (operating and nonoperating)	6,387,330	7,215,596	(828,266)	-11%
Total revenues	\$ 458,532,854	\$ 449,040,280	\$ 9,492,574	2%
Expenses				
Salaries and wages	\$ 278,899,097	\$ 268,589,588	\$ 10,309,509	4%
Operating expenses	105,387,371	107,299,624	(1,912,253)	-2%
Depreciation expense	23,141,528	21,761,642	1,379,886	6%
Scholarships and fellowships	1,659,601	2,498,685	(839,084)	-34%
Other, (operating and nonoperating)	5,175,058	5,334,313	(159,255)	-3%
Total expenses	\$ 414,262,655	\$ 405,483,852	\$ 8,778,803	2%
Increase (decrease) in net assets	\$ 44,270,199	\$ 43,556,428	\$ 713,771	2%
Net Position, Beginning of Year, as restated	\$ 379,750,506	\$ 318,492,671	\$ 61,257,835	19%
Net Position, End of Year	\$ 424,020,705	\$ 362,049,099	\$ 61,971,606	17%

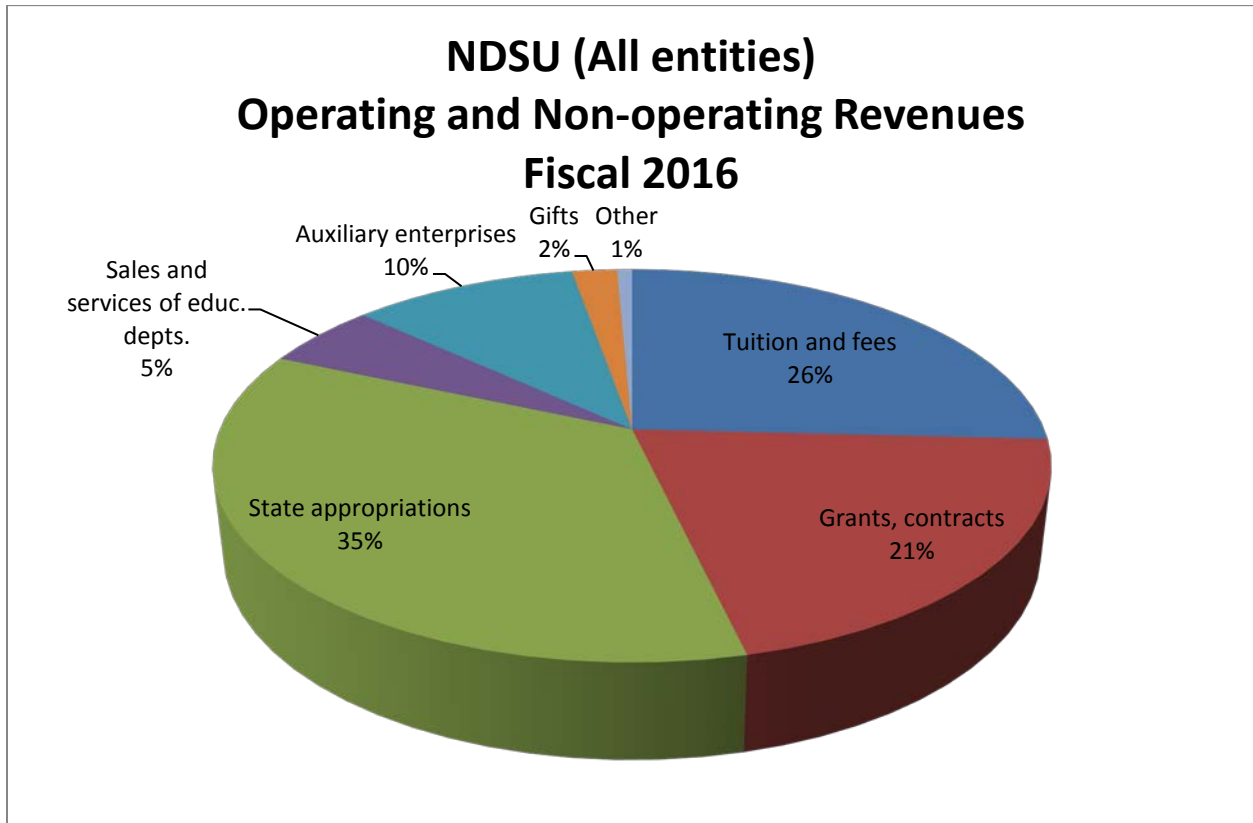
Overall revenues and expenses increased 2% from 2015 to 2016.

On the revenues side: Student tuition and fees increased 3% primarily due to a small increase in student tuition and fees. Overall state appropriations decreased 10% due to improved legislative support. Grant and contract decreased primarily because of less non-operating revenues related to capital construction projects. Gift revenue increase is primarily due to increases on capital construction projects, partially offsetting the grant and contract revenue decrease.

On the expenses side: fluctuations in each line item are minimal except for the scholarships and fellowship line item. This fluctuation is misleading as it is caused by the scholarship allowance entry recorded under GASB 34 and 35. Since NDSU is reported as a part of the North Dakota University System, NDSU's scholarship allowance calculation must include scholarships paid by the ND University System Office. These scholarships are skewing the scholarship allowance calculation for NDSU individually. Without that NDUS adjustment, NDSU's scholarships would show little fluctuation.

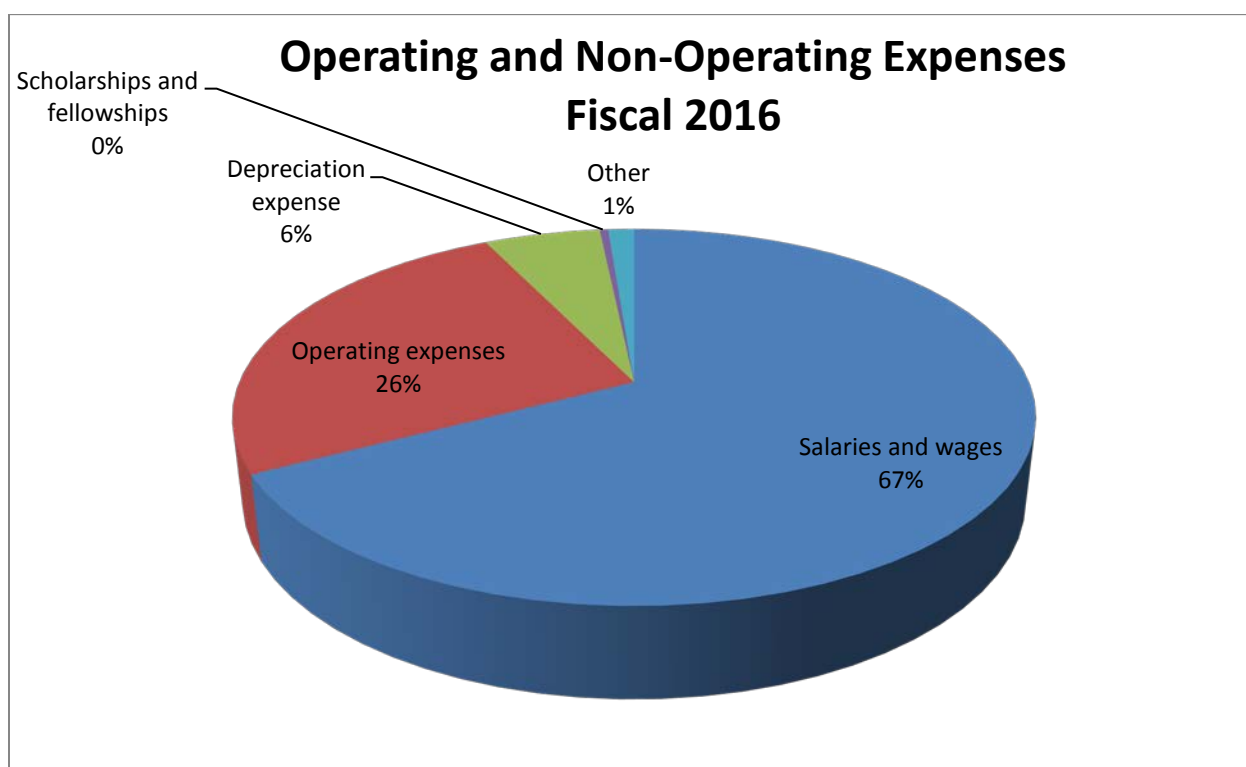
Graphs

The following graph depicts sources of operating and non-operating revenues for fiscal year 2016:



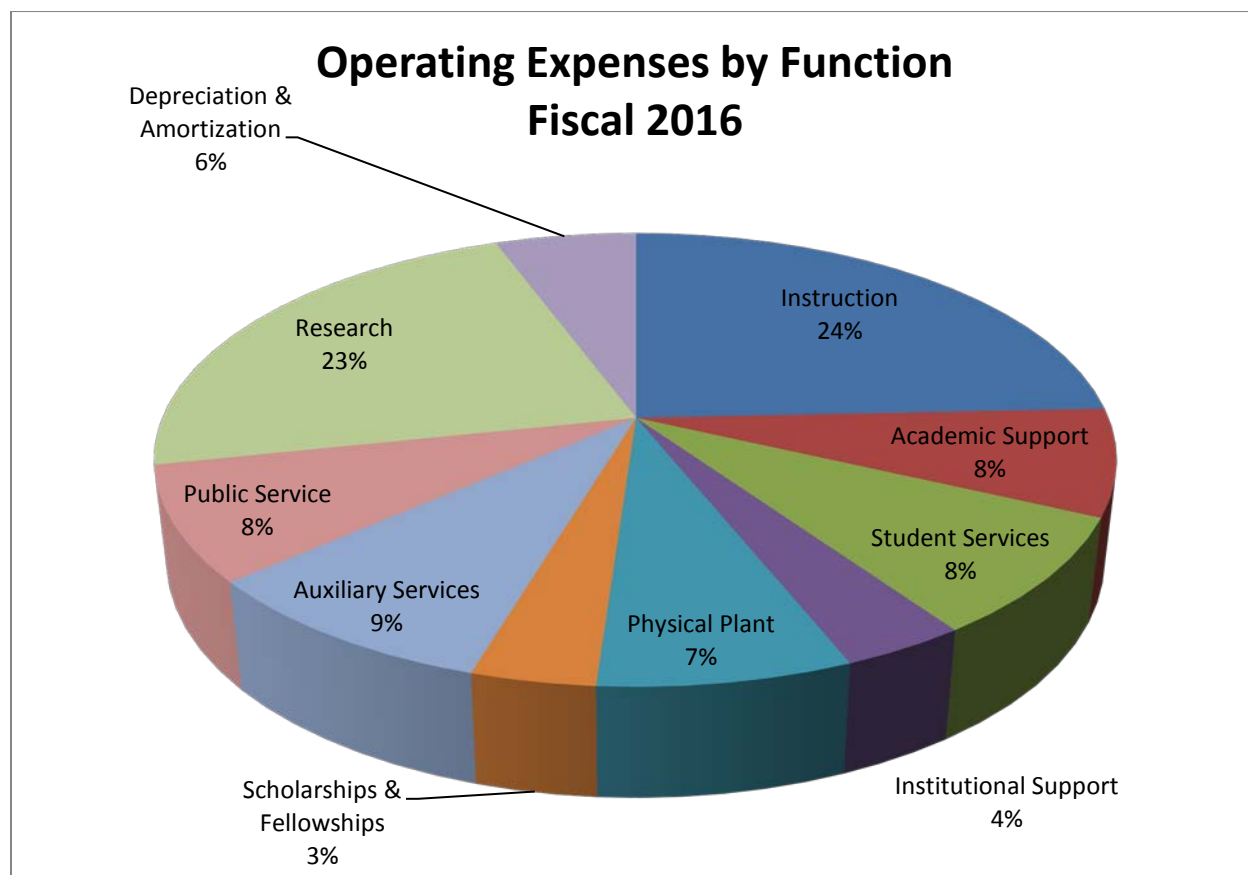
The activities of all NDSU entities are combined in this graph, including the Agriculture Experiment Station, and other similar separately appropriated agencies.

The following graph depicts objects of operating and non-operating expenses for fiscal year 2016:



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

The following graph depicts operating expenses only, by institutional function for fiscal year 2016:



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

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. No long-term debt was refinanced during fiscal 2016, although two bonds were refunded in August 2016. Those refundings will be reported on in fiscal 2017. 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

	2016	2015	2014
Current Ratio (current assets to current liabilities)	2.20	2.20	2.60
Primary Ratio (expendable net position to operating expense)	0.26	0.25	0.34
Net Income Margin (increase in net position to total revenue)	9.65%	9.70%	6.50%
Viability Ratio (expendable net position to long-term debt)	0.78	0.73	0.94
Higher Learning Commission's Composite Financial Index	2.71	3.36	4.25

Current Ratio

The current ratio measures whether or not the University has enough readily available resources to pay its short-term bills and liabilities. A ratio of 2 or greater is considered healthy.

Primary Reserve Ratio

The primary reserve ratio measures the ability of the University to continue operating at current levels, within current restrictions, without future revenues. A ratio of 1.0 denotes that an institution would have the ability to cover its expenses for one year with any revenues. The University's primary reserve ratio at June 30, 2016, is 0.26, which indicates that in an emergency situation, the University could continue its current operations for approximately 13 weeks.

Net Income Margin

The net income margin indicates whether total activities resulted in income or a deficit. A positive margin indicates that the institution experienced income for one year. NDSU's fiscal 2016 margin is 9.65%. A positive margin is considered good.

Viability Ratio

The viability ratio is a measure of financial health; the availability of expendable net assets to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable net assets are the balances in the total net assets, excluding investment in capital assets and non-expendable scholarships and fellowships. NDSU's viability ratio improved 5 basis points from 0.73 to 0.78 from fiscal 2015 to 2016. The reduction from fiscal 2014 to 2015 was due 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.

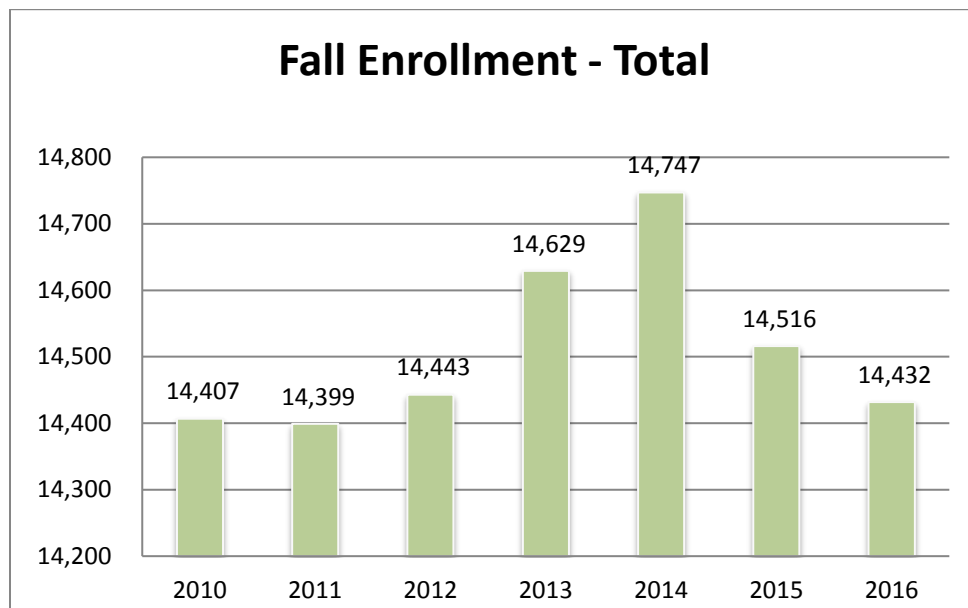
Higher Learning Commission's Composite Financial Index

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 2.71 for fiscal 2016, which is well over the level set by the HLC requiring a review.

Other Highlights

Student Enrollment

NDSU's annual unduplicated degree credit headcount for fall 2016 was 14,432 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, 2016 & 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 54,679,641	\$ 40,740,377
Short-term investments	12,000,004	12,025,018
Accounts receivable, net	5,541,879	10,143,132
Due from other NDUS institutions	87,547	712,566
Due from component units	895,037	1,574,280
Due from State General Fund	9,844,079	13,798,972
Grants & contracts receivable, net	14,298,631	15,250,700
Inventories	1,830,992	1,632,290
Notes receivable, net	1,456,982	1,422,915
Other assets	591,003	950,114
Total Current Assets	\$ 101,225,795	\$ 98,250,364
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 1,748,933	\$ 1,628,088
Restricted investments	3,615,537	10,937,743
Endowment investments	497,275	412,183
Notes receivable, net	5,244,752	5,091,966
Other long-term investments	74,325,529	69,824,441
Unamortized bond discount and cost of issuance		67,965
Due From Component Units		331,235
Other noncurrent assets	579,548	672,819
Capital assets, net	437,961,985	392,410,954
Total Noncurrent Assets	\$ 523,973,559	\$ 481,377,394
Total Assets	\$ 625,199,354	\$ 579,627,758
DEFERRED OUTFLOWS OF RESOURCES		
	\$ 5,370,010	\$ 5,366,463
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 17,548,427	\$ 17,266,083
Payable to component units	217	314,979
Accrued payroll	12,476,550	12,075,156
Unearned revenue	7,720,096	6,517,711
Deposits	1,541,626	1,530,520
Long-term liabilities—current portion:		
Payable to component units	2,075,391	1,991,156
Payable to others	5,660,224	4,854,355
Total Current Liabilities	\$ 47,022,531	\$ 44,549,960
Noncurrent Liabilities		
Pension Liability	\$ 24,058,074	\$ 22,717,420.00
Payable to others	74,590	3,144,939
Long-term liabilities:		
Payable to component units	31,784,713	33,861,586
Payable to others	95,116,388	96,450,680
Total Noncurrent Liabilities	\$ 151,033,765	\$ 156,174,625
Total Liabilities	\$ 198,056,296	\$ 200,724,585
DEFERRED INFLOWS OF RESOURCES		
	\$ 3,016,333	\$ 4,519,131

Statement of Net Position - Continued on Next Page

Statement of Net Position - Continued

	<u>2016</u>	<u>2015</u>
NET POSITION		
Invested in Capital Assets, net of related debt	\$ 323,338,473	\$ 278,562,461
Restricted for:		
Nonexpendable:		
Scholarships and fellow ships	509,719	414,255
Expendable:		
Scholarships and fellow ships	1,386,826	165,649
Research	6,846,949	7,297,016
Instructional department uses	1,060,565	1,377,744
Loans	7,210,910	7,128,192
Capital projects	43,275	44,930
Debt service	2,091,574	3,460,618
Unrestricted	87,008,442	81,299,640
Total Net Position	<u><u>\$ 429,496,733</u></u>	<u><u>\$ 379,750,505</u></u>

North Dakota State University
Statement of Revenues, Expenses, & Other Changes in Net Position
For Years Ended June 30, 2016 & 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Operating Revenues:		
Student tuition and fees	\$ 114,588,546	\$ 110,778,521
Federal Grants and Contracts	40,133,889	41,554,635
State Grants and Contracts	8,797,216	8,363,527
Private Grants & Contracts	11,485,461	11,623,657
Sales and services of educational departments	33,882,633	35,517,866
Auxiliary enterprises	44,101,630	43,286,230
Other Operating Revenue	846,749	1,091,936
Total operating revenues	\$ 253,836,124	\$ 252,216,372
EXPENSES		
Operating expenses:		
Salaries and wages	\$ 278,899,097	\$ 268,589,588
Operating expenses	91,310,659	92,916,914
Data Processing	4,278,001	4,724,564
Depreciation Expense	23,141,528	21,761,642
Scholarships and fellow ships	1,659,601	2,498,685
Cost of Sales and services	9,798,711	9,658,146
Total operating expenses	\$ 409,087,597	\$ 400,149,539
Operating income (loss)	\$ (155,251,473)	\$ (147,933,167)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 128,742,010	\$ 119,487,388
Federal Appropriations	6,488,330	6,701,819
Federal grants and contracts	10,068,079	10,623,730
Gifts	11,932,176	9,204,609
Investment income	2,909,945	2,267,067
Interest on capital asset - related debt	(4,970,901)	(5,048,939)
Gain/(Loss) on capital assets	426,549	971,177
Insurance Proceeds	18,641	33,769
Tax Revenues	511,634	103,660
Other nonoperating revenues over (under) expenses	1,619,353	2,747,987
Net nonoperating revenues	\$ 157,745,816	\$ 147,092,267
Income (loss) before capital grants, gifts and transfers	\$ 2,494,343	\$ (840,900)
State appropriations - capital assets	\$ 27,691,136	\$ 22,709,435
Inter-institutional transfers		
Transfer from Building Authority	(204,157)	(285,374)
Interinstitutional Transfers	54,459	
Capital grants and gifts	14,234,418	21,973,267
Total other revenues (expenses)	\$ 41,775,856	\$ 44,397,328
Increase (decrease) in net position	\$ 44,270,199	\$ 43,556,428
NET POSITION		
Net Position - beginning of year,	\$ 379,750,506	\$ 336,194,077
Prior Period Adjustment-GASB 72- Commercial Property	\$ 5,476,028	
Net Position - end of year	\$ 429,496,733	\$ 379,750,505

Statement of Cash Flows - Continued on Next Page

North Dakota State University
Statement of Cash Flows
For Years Ended June 30, 2016 & 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 116,537,069	\$ 111,926,354
Grants and Contracts	61,319,570	62,072,430
Payments to suppliers	(102,683,577)	(107,551,019)
Payments to employees	(278,164,257)	(267,622,327)
Payments for scholarships and fellow ships	(1,659,601)	(2,498,685)
Loans issued to students	(1,518,825)	(1,431,864)
Collection of loans to students	1,293,935	1,450,580
Auxiliary enterprise charges	44,027,200	43,314,138
Sales and services of educational departments	34,011,752	35,539,366
Cash received (paid) on deposits	154,116	(76,330)
Other receipts (payments)	6,426,376	993,891
Net cash provided (used) by operating activities	<u>\$ (120,256,242)</u>	<u>\$ (123,883,466)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 128,867,027	\$ 118,942,171
Federal appropriations	6,488,330	6,701,819
Grants and gifts received for other than capital purposes	22,010,987	19,744,423
Direct Lending Receipts	53,644,907	51,770,123
Direct Lending Disbursements	(52,567,857)	(51,915,369)
Agency fund cash increase (decrease)	(96,502)	(228,349)
Tax revenues	511,634	103,660
Net cash provided/(used) by financing activities	<u>\$ 158,858,526</u>	<u>\$ 145,118,478</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ -	\$ 33,102,299
Transfers (to)/from Building Authority	(204,157)	(285,374)
Capital appropriations	31,521,012	18,288,411
Capital grants and gifts received	15,030,582	20,860,272
Proceeds from sale of capital assets	640,000	1,350,000
Purchases of capital assets	(71,393,534)	(59,558,050)
Insurance proceeds	18,641	33,769
Principal paid on capital debt and lease	(6,347,299)	(4,990,336)
Deposits with capital debt and lease	-	(26,090,000)
Interest paid on capital debt and lease	(5,025,542)	(5,283,066)
Net cash provided/(used) by capital and related financing activities	<u>\$ (35,760,297)</u>	<u>\$ (22,572,075)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 23,062,369	\$ 19,108,777
Interest on Investments	2,967,341	2,258,726
Purchases of investments	(14,811,592)	(31,521,372)
Net cash provided/(used) by investing activities	<u>\$ 11,218,118</u>	<u>\$ (10,153,869)</u>
Net increase (decrease) in cash	<u>\$ 14,060,105</u>	<u>\$ (11,490,932)</u>
Cash - Beginning of year	<u>\$ 42,368,465</u>	<u>\$ 53,859,397</u>
Cash - End of year	<u>\$ 56,428,570</u>	<u>\$ 42,368,465</u>

Statement of Cash Flows - Continued

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

	<u>2016</u>	<u>2015</u>
Operating Income (loss)	\$ (155,251,473)	\$ (147,933,167)
Adjustments:		
Depreciation	23,141,528	21,761,642
Other nonoperating revenues (expenses)	4,796,935	(35,732)
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	1,921,355	1,399,288
Intergovernmental receivables	927,870	530,610
Inventories	(198,701)	85,130
Notes receivable	(186,853)	60,686
Other assets	782,692	(55,194)
Accounts payable and accrued liabilities adjusted for interest payable	2,577,471	(398,430)
Accrued payroll	399,728	1,290,278
Compensated absences	548,573	(143,047)
Deferred revenue	130,521	(369,200)
Deposits	154,116	(76,330)
Net cash provided (used) by operating activities	<u>\$ (120,256,238)</u>	<u>\$ (123,883,466)</u>

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	\$ 315,475	\$ 1,653,338
Expenses paid by capital lease	167,390	107,114
Gifts of capital assets	70,393	278,531
Net Increase (Decrease) in value of investments	6,870	12,355
Total non cash transactions	<u>\$ 560,128</u>	<u>\$ 2,051,338</u>

Notes to Financial Statements

JUNE 30, 2016

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

Notes to Financial Statements

receipts from the component units, the majority of resources, or income thereon, which the entities hold and invest is restricted to the activities of the institution or its constituents by the donors. Therefore, these entities are discretely presented in the financial statements using Financial Accounting Standards Board (FASB) standards, including Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the financial report for these differences. Component units that are significant relative to the other component units and to the institution are considered "major" component units and are displayed in separate columns in the component unit section of the financial statements. In this financial report, the major component units are included as supplementary information. Component units that are not significant relative to the other component units and to the institution are considered non-major component units and are displayed in a separate column in the component unit section of the financial statements. Note disclosures are not provided for "non-major" component units.

Major Component Units

North Dakota State University Foundation and Alumni Association is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. In fiscal year 2012, the foundation changed their fiscal year end from June 30 to December 31. Complete financial statements for North Dakota State University Development Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102.

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

Non-major Component Units

North Dakota State University has no blended Non-Major Component Units.

JOINT VENTURES

Tri-College University

Tri-College University (TCU) is a legally separate organization that is organized exclusively for educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. TCU's purpose is to assist in the establishment and maintenance of coordinated programs between Concordia College, Minnesota State University Moorhead and NDSU, as a means of maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the three universities. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. An eight-member board of directors, including the presidents of the three universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of Concordia College, Minnesota State University Moorhead and NDSU. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2016, Tri-College University had a net position of approximately \$648,541 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, 2016 were:

NDSU Research Foundation

NDSU Team Makers, Inc.

Alliance for Arts & Humanities

NDSU 4H Foundation

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, issued in June and November, 1999, as amended by GASB Statement Nos. 36, 37 and 38. The System

Notes to Financial Statements

follows the “business-type activities” (BTA) reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the System’s activities.

BASIS OF ACCOUNTING

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

North Dakota State University follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

Unrestricted Net Position

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

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

Restricted Assets

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

Revenue and Expense Recognition

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

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

Notes to Financial Statements

Budgetary Process

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

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

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

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Investments consist of certificates of deposit (maturity greater than three months), U.S. Treasuries, bonds, stocks and other securities held by trust departments or broker dealers. Investments are reported at fair value for year-end financial reporting. Fair value is the amount at which an investment could be exchanged between two willing parties, which for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income. Investments are classified as Investments, if the maturity date is more than three months to one year, or as Other Long-term Investments, if the maturity date is more than one-year from the date of the financial statements. Investments restricted by bond covenants or invested from bond proceeds are

Notes to Financial Statements

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

RECEIVABLES

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

INVENTORIES

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

CAPITAL AND INTANGIBLE ASSETS

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

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

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

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

Land Improvements 10 – 35 years
Infrastructure 20 – 60 years
Buildings 10 – 50 years

Notes to Financial Statements

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

DEPOSITS

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

COMPENSATED ABSENCES

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

Pensions

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

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 2016	
Net Position, Beginning of the year, as previously reported	\$ 379,750,506
<u>Prior Period Adjustments:</u>	
Change in Account Method - GASB 72:	
Reporting of Commercial Real Estate - 19th Ave N.	5,476,027
Net Position, Beginning of the year, as previously reported	<u>\$ 385,226,533</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

Implementation of New Accounting Standards:

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. The statement defines fair value and provides guidance for determining a fair value measurement. The statement provides guidance for applying fair value to certain investments as well as guidance for disclosures related to fair value measurements. As part of the implementation in fiscal year 2016, an adjustment of \$9.4 million was made to increase beginning net position.

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.

Accounting Standards Issued but Not Yet Implemented

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

Notes to Financial Statements

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

In December 2015, the GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." This statement is effective for reporting periods beginning after December 15, 2015.

In December 2015, the GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants." This statement is effective for reporting periods beginning after December 15, 2015.

In January, 2016, the GASB issued Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14." This statement is effective for reporting periods beginning after June 15, 2016.

In March 2016, the GASB issued Statement No. 81, "Irrevocable Split-Interest Agreements." This statement is effective for reporting periods beginning after December 15, 2016.

In March 2016, the GASB issued Statement No. 82, "Pension Issues-an amendment of GASB Statement No. 67, No. 68, and No. 73." This statement is effective for reporting periods beginning after June 15, 2017.

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

Note 2 – Deposits & Investments

LIMITATIONS

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

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

Notes to Financial Statements

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

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

DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Position for June 30, 2016 as follows:

Deposits	Carrying Amount	Bank Balance	Uninsured Bank Balance		
			(A)	(B)	(C)
Total Cash Deposits at BND	42,538,535	48,093,248	48,093,248		
CDs at BND	80,000,000	80,000,000	80,000,000		
Total Cash Deposits at Other	13,802,915	13,603,231		12,999,497	
CDs at Other					
Total Deposits	136,341,450	141,696,479	128,093,248	12,999,497	-
Cash on Hand/Petty Cash	87,125				
Less amts reported as investments	(80,000,000)				
Cash & Cash Equ-SNA	56,428,575				

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 \$382.2 million was exposed to custodial credit risk as follows:

Notes to Financial Statements

Uninsured and uncollateralized	\$368,266,503
Uninsured and collateral held by pledging bank not in system's name	\$ 13,974,272

Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2016, as shown below:

		Maturities from June 30			
Account	Market Value	Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
Debt Securities:					
US Treasuries	\$ -		\$ -		
US Strips	50,612		50,612		
Mutual Bond Funds	-				
Money market mutual funds	3,615,541	3,615,541			
Total Securities w/ Maturities	\$ 3,666,153	\$ 3,615,541	\$ 50,612	\$ -	-
Other Invest Types:					
Stocks	\$ 1,163,614				
Equity Mutual Funds	70,567				
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	5,487,500				
Alternate Investments	50,511				
Total reported on SNA	\$ 90,438,345				

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.

Credit Risk

Notes to Financial Statements

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2016, 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	\$ 3,615,541	\$ 3,615,541	
Other	50,612		50,612
Total	\$ 3,666,153	\$ 3,615,541	\$ 50,612

Note 3 – Receivables

Receivables at June 30, 2016 consist of the following amounts:

	Current	NonCurrent	Total
Student & General	\$ 8,974,531		\$ 8,974,531
Interest Receivable	182,027		182,027
Allow ance for doubtful Accts	(3,614,680)		(3,614,680)
Total Accounts Receivable, Net	<u>\$ 5,541,878</u>		<u>\$ 5,541,878</u>
Grants & Contracts Receivable	\$ 11,120,679		\$ 11,120,679
Due from Other State Agencies	3,177,951		3,177,951
Total Grants & Contracts Receivable, Net	<u>\$ 14,298,630</u>		<u>\$ 14,298,630</u>
Student	\$ 1,672,163	\$ 6,021,189	\$ 7,693,352
Allow ance for Doubtful Notes	(215,181)	(776,437)	(991,618)
Total Notes Receivable, Net	<u>\$ 1,456,982</u>	<u>\$ 5,244,752</u>	<u>\$ 6,701,734</u>

Note 4 – Endowment Funds

The endowment funds reported herein are institutional funds under the terms of the gift instrument and are not wholly expendable by the institution. NDCC Section 59-21 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to the investment of endowments governed by a gift instrument. NDUS SBHE policy 810 stipulates endowment funds shall be invested according to the intent of the donor provided such intent is consistent with applicable laws. Absent terms expressing donor intent in a gift instrument, NDUS institution officers initially shall deposit the funds in institution accounts at the Bank of North Dakota. Thereafter, the funds may be invested according to NDCC 59-21. Subject to the intent of the donor, NDUS institution officers are delegated authority to manage and invest these institutional funds as provided by UPMIFA. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in 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.

Notes to Financial Statements

Note 5 – Capital & Intangible Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 7,620,530	\$ 2,952,000	\$ 20,278		\$ 10,552,252
Construction in Progress	43,991,893	\$ 23,795,729		\$ (20,092,096)	47,695,526
Total non-depreciable capital assets	\$ 51,612,423	\$ 26,747,729	\$ 20,278	\$ (20,092,096)	\$ 58,247,778
Land Improvements/infrastructure	\$ 53,559,011	\$ 2,685,958			\$ 56,244,969
Buildings	421,477,784	30,745,754		\$ 20,092,096	472,315,634
Furniture, fixtures, and equipment	133,243,414	8,998,813	\$ 3,108,388		139,133,839
Intangibles:					
Computer Software	1,115,373				1,115,373
Other	642,410				642,410
Library Materials	16,920,802	61,374	144,203		16,837,973
Total Depreciable Capital Assets	\$ 626,958,794	\$ 42,491,899	\$ 3,252,591	\$ 20,092,096	\$ 686,290,198
Less accumulated depreciation and amortization					
Land Improvements/infrastructure	\$ 34,609,524	\$ 1,325,609			\$ 35,935,133
Buildings	160,970,890	11,709,104			172,679,994
Furniture, fixtures, and equipment	75,732,629	9,308,743	2,401,596		82,639,776
Intangibles:					
Computer Software	804,649	134,490			939,139
Other	155,149				155,149
Library Materials	13,887,422	663,582	144,204		14,406,800
Total Accumulated depreciation and amortization	\$ 286,160,263	\$ 23,141,528	\$ 2,545,800	\$ -	\$ 306,755,991
Total Depreciable Capital Assets, net	\$ 340,798,531	\$ 19,350,371	\$ 706,791	\$ 20,092,096	\$ 379,534,207
Capital Assets, net	\$ 392,410,954	\$ 46,098,100	\$ 727,069	\$ -	\$ 437,781,985

Construction in progress for the year ended June 30, 2016 was as follows:

Notes to Financial Statements

Project	Amount Authorized	Expended (CIP Balance)	Expended (non-capitalized)	Authorized Balance
<u>Budiling Projects:</u>				
Bison Sports Arena/SHAC	\$ 41,000,000	\$ 34,291,648	\$ 387,186	\$ 6,321,166
SHAC FFE	2,960,243	2,285,183		675,060
Aquatic Center	11,000,000	8,289,320		2,710,680
Churchill Hall	11,000,000	828,202		10,171,798
Central Gresslands Agronmy Lab	550,000	84,055		465,945
Veterinary Diagnostic Lab	18,000,000	1,906,668		16,093,332
Carrington Seed Cleaning	2,250,000	10,450		2,239,550
Construction in Progress Total	\$ 86,760,243	\$ 47,695,526	\$ 387,186	\$ 38,677,531

Notes to Financial Statements

Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2016:

Accounts Payable	\$ 15,190,362
Due to other state agencies	140,262
Sales Tax Payable	(222)
Accrued Interest	963,782
Contractor Payable/Retainage	1,159,250
Total Payables & Accrued Liabilities	<u>\$ 17,453,434</u>

Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2016 are as shown below:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Non-Current Portion
Bonds Payable	\$ 80,404,042		\$ 3,294,242	\$ 77,109,800	\$ 3,579,243	\$ 73,530,557
Due to CU - Bonds Payable	18,960,000		1,055,000	17,905,000	1,105,000	16,800,000
Capital Leases	8,058,194	315,474	1,123,657	7,250,011	1,001,237	6,248,774
Due to CU - Capital Leases	16,892,743		937,639	15,955,104	970,391	14,984,713
Special Assessments	2,208,559	167,390	81,002	2,294,947	51,673	2,243,274
Compensated Absences	13,573,281	548,573		14,121,854	1,028,071	13,093,783
Total	<u>\$ 140,096,819</u>	<u>\$ 1,031,437</u>	<u>\$ 6,491,540</u>	<u>\$ 134,636,716</u>	<u>\$ 7,735,615</u>	<u>\$ 126,901,101</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, 2016 is presented below and the detail is presented in the Supplementary Information section following these notes.

Notes to Financial Statements

<u>Bond Issue</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Bonds Outstanding 6/30/15</u>	<u>New Bonds issued this Fiscal Year</u>	<u>Refunding Bonds</u>	<u>Bond Principal paid this Fiscal Year</u>	<u>Bonds Outstanding 6/30/16</u>
<u>Housing and Auxiliary System Revenue Bonds:</u>								
2007 Living Learning Center East/Ceres Hall	7/31/2007	4/1/2037	12,000,000	10,450,000			280,000	\$ 10,170,000
2009 Niskanen/West Dining Center	7/29/2009	4/1/2039	26,245,000	23,680,000			560,000	23,120,000
2012A Refunding (Series 2002 LLC Bonds)	3/1/2012	4/1/2027	5,730,000	4,735,000			350,000	4,385,000
2014A Refunding (Series 2004 Bison Court)	4/1/2014	4/1/2034	8,340,000	8,050,000			325,000	7,725,000
2015A Refunding (Series 2005, 2006A & B)	2/5/2015	4/1/2036	21,195,000	21,195,000			1,390,000	19,805,000
2015B Aquatic Addition (Series 2004 Bison Court)	6/24/2015	4/1/2035	9,355,000	9,355,000			245,000	9,110,000
Subtotal - NDSU			\$ 82,865,000	\$ 77,465,000	\$ -	\$ -	\$ 3,150,000	\$ 74,315,000
<u>NDSU Research & Tech Park, Inc.</u>								
Series 2007A, Research 1 (Refunding Series 2000)	1/25/2007	4/1/2022	\$ 4,535,000	\$ 3,110,000			\$ 395,000	\$ 2,715,000
Series 2007B, Research 2 (Refunding Series 2002)	1/25/2007	4/1/2032	17,715,000	15,850,000			660,000	15,190,000
Subtotal - NDSU Research & Tech Park, Inc.			\$ 22,250,000	\$ 18,960,000			\$ 1,055,000	\$ 17,905,000
GRAND TOTAL BONDS PAYABLE			\$ 111,615,000	\$ 96,425,000	\$ -	\$ -	\$ 4,205,000	\$ 92,220,000

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
2017	\$ 4,684,243	\$ 3,855,127	\$ 8,539,370
2018	4,834,243	3,697,473	8,531,716
2019	4,999,243	3,529,555	8,528,798
2020	5,159,243	3,366,080	8,525,323
2021	5,334,243	3,186,345	8,520,588
2022 - 2026	24,541,214	12,521,015	37,062,229
2027 - 2031	21,996,214	7,873,796	29,870,010
2032 - 2036	18,006,971	3,536,575	21,543,546
2037 - 2041	5,459,186	531,894	5,991,080
	<u>\$ 95,014,800</u>	<u>\$ 42,097,860</u>	<u>\$ 137,112,660</u>

Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2016.

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 2016 is as follows:

LEASE	Lease Start		Terms (in Months)	PRINCIPAL BALANCE DUE 7/1/2015	PRINCIPAL NEW LEASES	PRINCIPAL PAID	PRINCIPAL BALANCE DUE 6/30/2016
NUMBER	Date	DESCRIPTION					
Capital Leases							
0527	11/12/08	Wells Fargo-Athletic Field Turf	96	\$ 144,944		\$ 70,553	\$ 74,391
0573	06/24/12	Bank of America-Energy Savings Performance Contract	168	5,986,272		456,684	5,529,588
0572	03/11/11	Wells Fargo-2007 Case IH MX245 MFD Tractor	53	10,246		10,246	-
0584	03/15/12	Wells Fargo-Truax FLEXII Drill, Model FLXII-812RD	60	8,906		4,366	4,539
0585	06/30/12	Wells Fargo-Zurn 150 Demo Plot Combine	49	33,042		16,109	16,933
0587	07/01/12	Wells Fargo-New Holland Long Reach Cab	49	29,071		29,071	-
0590	09/15/12	Wells Fargo-Zurn 150 Plot Combine	48	41,821		20,401	21,420
0598	09/01/13	Wells Fargo-Audio Visual Equipment	36	42,803		42,803	-
0601	10/17/13	Liberty Business Systems - Lanier Production Printer Pro 1107E	24	5,300	\$ (1)	5,299	-
0608	07/15/14	Wells Fargo-Two Skid Steers, NHL L220; Blow Hard Bunk Clean	60	49,990		11,827	38,164
0609	05/21/14	Wells Fargo-Case IH 2WD 85C Farmall Tractor	45	26,496		26,496	-
0611	01/13/14	Wells Fargo-Audio Visual Equipment	30	26,940		26,940	-
0612	08/18/14	Wells Fargo-New Zurn 150 Plot Combine	48	239,514		56,529	182,985
0613	07/14/14	Wells Fargo-2014 Case SR250 Skid Steer	65	22,405		22,405	-
0619	09/30/14	Wells Fargo-New Case 1H Patriot 2240 Sprayer w/attachments	59	150,500		35,880	114,620
0622	07/30/14	Wells Fargo-Dakota Field Athletic Bubble	62	1,239,944		225,884	1,014,060
0625	08/15/15	Wells Fargo-2015 150 Plot Harvester w/attachments-accessories	38		78,400	20,425	57,975
0636	09/23/15	Wells Fargo-New Lanier Pro C7110SX Color MFP Prod. System	36		109,817	26,526	83,291
0637	07/15/15	Wells Fargo-Used 2002 Case IH 220 Tractor w attachments	60		57,400	11,956	45,444
0640	07/27/15	Deere Credit, Inc - "The Gator" Crossover Utility Vehicle	36		11,397	3,256	8,142
0643	06/12/16	Wells Fargo-New Case Forage Wagon	61		58,460		58,460
				<u>\$ 8,058,194</u>	<u>\$ 315,474</u>	<u>\$ 1,123,657</u>	<u>\$ 7,250,011</u>
Due to Component Units - Capital Leases							
0465	10/10/05	NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF	180	\$ 1,582,743		\$ 257,639	\$ 1,325,104
0476	11/29/07	NDSU Development Foundation-Renaissance Hall	303	4,795,000		230,000	4,565,000
0586	11/29/07	US Bank for NDSU Development Foundation-Barry & Klai Hall	295	10,515,000		450,000	10,065,000
				<u>\$ 16,892,743</u>	<u>\$ -</u>	<u>\$ 937,639</u>	<u>\$ 15,955,104</u>
Grand Total				<u>\$ 24,950,937</u>	<u>\$ 315,474</u>	<u>\$ 2,061,296</u>	<u>\$ 23,205,115</u>

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>
2017	\$ 1,971,628	\$ 826,015	\$ 2,797,643
2018	1,916,709	753,181	2,669,890
2019	1,949,941	684,368	2,634,309
2020	1,884,062	611,414	2,495,476
2021	1,528,695	532,247	2,060,942
2022 - 2026	6,689,080	1,979,412	8,668,492
2027 - 2031	3,985,000	1,002,357	4,987,357
2032 - 2036	2,675,000	397,100	3,072,100
2037 - 2041	605,000	12,100	617,100
	<u>\$ 23,205,115</u>	<u>\$ 6,798,194</u>	<u>\$ 30,003,309</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>
2017	\$ 356,403	\$ 231,105	\$ 587,508
2018	342,539	214,477	557,016
2019	370,506	167,831	538,337
2020	373,991	152,001	525,992
2021	354,524	141,742	496,266
2022 - 2026	1,093,831	531,397	1,625,228
2027 - 2031	731,397	299,099	1,030,496
2032 - 2036	718,827	114,965	833,792
2037 - 2041	67,213	7,846	75,059
	<u>\$ 4,409,231</u>	<u>\$ 1,860,463</u>	<u>\$ 6,269,694</u>

Notes to Financial Statements

Compensated Absences

The compensated absences liability as of June 30, 2016 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, 2016 and 2015 totaled \$14,121,854 and \$13,135,949, 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, 2016 consist of the following:

Deferred Outflows	
Pension	\$ 4,472,604
Debt Refunding	897,406
	<u>\$ 5,370,010</u>
Deferred Inflows	
Pension	\$ 2,956,780
Debt Refunding	3,553
Grant amounts received prior to meeting time requirements	56,000
	<u>\$ 3,016,333</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. 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

Notes to Financial Statements

the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

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). For members on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The 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

Notes to Financial Statements

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.

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.

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 25 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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

At June 30, 2016, the NDUS reported a liability of \$75.4 million for its proportionate share of the net pension liability. The pension liability for each institution was, as follows:

BSC	\$	3,014,657
DSU		1,919,027
LRSC		1,420,267
MaSU		2,006,031
MiSU and DCB		4,156,566
NDSCS		4,232,554
NDSU		24,058,075
UND		30,651,856
VCSU		1,373,008
WSC		856,058
CTS		1,224,962
NDUSO		<u>438,052</u>
Total	\$	<u>75,351,113</u>

The net pension liability was measured as of June 30, 2015, 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.

Notes to Financial Statements

At June 30, 2015, the proportion for each institution was:

BSC	0.443343%	MiSU and DCB	0.611275%	VCSU	0.201918%
DSU	0.282217%	NDSCS	0.622450%	WSC	0.125894%
LRSC	0.208868%	NDSU	3.538041%	CTS	0.180146%
MaSU	0.295012%	UND	4.507739%	NDUSO	0.064421%

The percentage change from its proportion measured as of June 30, 2014 was:

BSC	0.016681%	MiSU and DCB	-0.014331%	VCSU	0.010142%
DSU	0.012225%	NDSCS	-0.031308%	WSC	-0.000427%
LRSC	-0.003449%	NDSU	-0.041076%	CTS	0.010245%
MaSU	0.029582%	UND	-0.129315%	NDUSO	-0.003756%

For the year ended June 30, 2016, the total recognized pension expense for each institution was:

BSC	\$	305,539	MiSU and DCB	\$	378,085	VCSU	\$	142,796
DSU		197,101	NDSCS		363,201	WSC		82,161
LRSC		131,444	NDSU		2,232,014	CTS		127,792
MaSU		226,229	UND		2,755,206	NDUSO		37,557
						Total	\$	<u>6,979,125</u>

At June 30, 2016, the NDUS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements

Deferred Outflow of Resources:

	Differences between expected and actual experience	Changes of assumptions	Net difference between projected and actual earnings on pension plan investments	Changes in proportion and differences between employer contributions and proportionate share of	Employer contributions subsequent to the measurement date	Total
BSC	\$ 87,459	\$ -	\$ -	\$ 102,526	\$ 510,823	\$ 700,808
DSU	55,673	-	-	75,138	305,980	436,791
LRSC	41,204	-	-	1,557	219,343	262,104
MaSU	58,198	-	-	181,818	347,897	587,913
MSU/DCB	120,587	-	-	-	681,548	802,135
NDSCS	122,792	-	-	-	679,146	801,938
NDSU	697,956	-	-	-	3,774,648	4,472,604
UND	889,250	-	-	-	4,800,856	5,690,106
VCSU	39,833	-	-	62,336	221,737	323,906
WSC	24,835	-	-	5,398	141,081	171,314
CTS	35,538	-	-	62,336	203,568	301,442
NDUSO	12,708	-	-	2,159	65,909	80,776
Total	<u>\$ 2,186,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 493,268</u>	<u>\$ 11,952,536</u>	<u>\$ 14,631,837</u>

Employer contributions made subsequent to the measurement date of \$11.9 million are reported as deferred outflows of resources and a reduction of pension expense at June 30, 2016. These contributions will be reported as a reduction of net pension liability in the year ended June 30, 2017.

Deferred Inflow of Resources:

	Differences between expected and actual experience	Changes of assumptions	Net difference between projected and actual earnings on pension plan investments	Changes in proportion and differences between employer contributions and proportionate share of contributions	Employer contributions subsequent to the measurement date	Total
BSC	\$ -	\$ 268,592	\$ 63,639	\$ 65,640	\$ -	\$ 397,871
DSU	-	170,976	40,511	4,574	-	216,061
LRSC	-	126,539	29,982	21,197	-	177,718
MaSU	-	178,728	42,347	7,505	-	228,580
MSU/DCB	-	370,330	87,744	90,351	-	548,425
NDSCS	-	377,101	89,349	200,545	-	666,995
NDSU	-	2,143,461	507,862	305,457	-	2,956,780
UND	-	2,730,936	647,056	830,163	-	4,208,155
VCSU	-	122,329	28,984	3,005	-	154,318
WSC	-	76,271	18,071	2,624	-	96,966
CTS	-	109,138	25,859	8,077	-	143,074
NDUSO	-	39,028	9,247	23,085	-	71,360
Total	<u>\$ -</u>	<u>\$ 6,713,429</u>	<u>\$ 1,590,651</u>	<u>\$ 1,562,223</u>	<u>\$ -</u>	<u>\$ 9,866,303</u>

Notes to Financial Statements

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense by the NDUS as follows:

Year ended June 30:	
2017	\$ (2,252,878)
2018	(2,252,878)
2019	(2,252,878)
2020	1,034,013
2021	(1,453,450)
Thereafter	(8,928)

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% per annum
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table, set back 2 years for males and 3 years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014 Disabled: RP-2000 Disabled Mortality Table, set back 1 year for males (no setback for females) multiplied by 125%

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale and percent married assumptions.

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 pension plan's target asset allocation are summarized in the following table:

Notes to Financial Statements

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%	1.52%
International Fixed Income	5%	0.45%
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, 2015. 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, 2015, 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 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 of current plan members, as of June 30, 2015. 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, 2015.

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

Notes to Financial Statements

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
BSC	\$ 4,622,825	\$ 3,071,176	\$ 1,698,884
DSU	2,942,733	1,919,027	1,081,452
LRSC	2,177,908	1,420,267	800,379
MaSU	3,076,149	2,006,031	1,130,482
MiSU/DCB	6,373,885	4,156,566	2,342,397
NDSCS	6,490,409	4,232,554	2,385,220
NDSU	36,891,854	24,058,075	13,557,724
UND	47,003,087	30,651,856	17,273,593
VCSU	2,105,439	1,373,008	773,747
WSC	1,312,722	856,058	482,424
CTS	1,878,418	1,224,962	690,317
NDUSO	671,731	438,052	246,860
Total	<u>\$ 115,547,158</u>	<u>\$ 75,407,630</u>	<u>\$ 42,463,479</u>

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 www.nd.gov/ndpers/employers/gasb-info.html

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 SBHE in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. The SBHE has the authority for establishing or amending plan provision and establishing or amending contribution requirements. Further information can be obtained by writing to TIAA-CREF; Denver Regional Office; 1700 Broadway, Suite 770; Denver, Colorado 80290 or by calling 800-842-2009.

Funding Policy

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

Notes to Financial Statements

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

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

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The North Dakota University System has no further liability once annual contributions are made. The University System contributed \$44.7 million to TIAA-CREF during the fiscal years ending June 30, 2016.

Note 14 - Post Retirement Benefits

State Group Health Plan

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

There are approximately 874 retired NDUS employees receiving these benefits and 3,305 active employees with retiree health credit. The actuarially determined required employer contributions of \$1.177 million for the year ended June 30, 2016 is 1.14 percent of the covered payroll. The actual and required contributions for the fiscal years ending June 30, 2016, 2015 and 2014 were \$1.177 million, \$1.183 million, and \$1.130 million, respectively.

As of June 30, 2016 there was \$102.9 million in net position available for benefits under the state retiree health insurance credit plan. The actuarially accrued liability was \$176.6 million and the underfunded actuarially accrued liability was \$78.8 million at June 30, 2016.

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, 2016, thirty-seven employees 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, 2016, forty-three 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 \$1.155 million over the term of the contracts. Amounts payable to employees at June 30, 2016 for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$773,029, assuming health insurance premium increases of 20 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 institution 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, 2016, thirteen employees participated in this option. Total cost to the institutions for these termination benefits will be \$327,000 over the term of the contracts. Amounts payable to employees at June 30, 2016 for outstanding contract buyouts and future health and life premiums adjusted for projected health insurance premium increases and discounted to the present were \$185,442, assuming health insurance premium increases of 20 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.

Severance Agreements

In fiscal year 2016, institutions paid \$4.8 million to eighty-eight employees under separate employment separation agreements.

Notes to Financial Statements

Note 15 - Construction Commitments and Financing

The University has contracted for the construction of various projects as of June 30, 2016. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Project	Contracts Awarded	Expended Through June 30, 2016	Total Cost To Complete	Funding for remaining costs			
				Federal Sources	State Sources	Institutional Funds	Other Sources
Main Campus							
Bison Sports Arena (SHAC)	35,880,357	30,893,165	4,987,192				4,987,192
STEM Bldg	26,961,594	26,917,336	44,258		44,258		
Wallman Wellness Aquatic Center	10,066,966	7,881,154	2,185,812				2,185,812
BBF Cooling	993,819	813,024	180,795		63,534	117,261	
EML HVAC Upgrade	874,730	256,480	618,250		206,063	412,187	
Water/Sewer Project - Admin Ave	1,138,499	492,977	645,522		215,174	215,174	215,174
Music Education - Lighting/Controls/Fire Alarm	926,492	402,900	523,592		174,513	349,079	
Ceres Hall Tuckpointing/Exterior Masonry	600,306	585,248	15,058		15,058		
Music Bldg - Tuckpointing/Exterior Masonry	509,955	225,117	284,838		284,838		
Sudro Hall Animal Chambers	466,503	269,120	197,383		197,383		
KKB / FLC Roof Replacement	404,800	265,325	139,475		139,475		
Old Main Roof Replacement / Cooling Project	796,144	308,128	488,016		488,016		
Reed Hall Bathroom - Phase II	802,420	301,997	500,423				500,423
WE Parking Lot	549,434	245,154	304,281				304,281
R Parking Lot - Phase II	1,453,334	374,206	1,079,128				1,079,128
Churchill Hall Renovation	1,464,528	192,087	1,272,441				1,272,441
RDC Expansion	2,345,070	181,371	2,163,699				2,163,699
R2 Server Rm Elec/Cooling Project	3,166,787	577,134	2,589,653	2,589,653			
Experiment Station & RE Centers							
Carrington Shop Facility	345,419	345,419	-				
Agronomy Lab - Carrington REC	2,426,597	2,426,597	-				
Agronomy Lab - Langdon REC	1,128,950	1,128,950	-				
Agronomy Lab - Central Grasslands REC	403,988	80,645	323,343		319,355		3,988
4-H Camp	2,281,050	2,281,050	-				
Ag Service Center	933,944	929,382	4,562				4,562
Vet Diagnostic Lab	13,691,477	1,821,905	11,869,572		11,869,572		
Carrington Seed Cleaning	11,000	10,450	550		550		
	\$ 110,624,163	\$ 80,206,321	\$ 30,417,843	\$ 2,589,653	\$ 14,017,789	\$ 1,093,701	\$ 12,716,700

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 SBHE 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,

Notes to Financial Statements

and restrictions of use of the facility as set forth in the lease. Upon payment of all the bonds, title to the facility will revert to RTP. On August 1, 2002, essentially the same legal and financial structure used to construct Research Building #1 was used to construct a second Research Building. The second lease agreement was for \$20.5 million.

On January 25, 2007, the city of Fargo, on behalf of the RTP, issued \$4.735 million of Series 2007A (Research 1) and \$18.1 million of Series 2007B (Research 2) Lease Revenue Refunding Bonds. These bonds are used to advance refund the callable maturities of both the Series 2000 (Research 1) and Series 2002 (Research 2) bonds and to pay the costs of issuance (including the insurance premium for the insurance policy and the reserve fund surety bond) relating to bonds for both Series 2007A and 2007B bonds. During the year ended June 30, 2011, the Series 2000 bonds were repaid in full with the funds held in escrow from the Series 2007A bond 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 2016 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 2016, 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 2016 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) \$16,726 for a subaward on an EPSCOR grant; 2) \$75,000 for sponsorship of an RTP event called "Innovation Challenge '16".

NDSU Foundation and Alumni Association

Fargodome Lease and Improvements

In fiscal year 2006, the Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the Foundation for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2016, the Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$336,312. The facility is included in long-term investments and the debt is included in long-term

Notes to Financial Statements

liabilities on the financial reports of the Foundation. NDSU has also recorded a capital asset and a capital lease payable, reflected as "Due to Component Units" by NDSU, of \$1.325 million as of June 30, 2016. Since the Foundation is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

Renaissance Hall

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

Under this refinanced debt issuance and lease agreement, as approved by the SBHE on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the FOUNDATION incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the FOUNDATION \$418,528 in fiscal year 2016 for debt service under this agreement. As of June 30, 2016 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$4.565 million.

Barry Hall Business Building and Klai Hall Architecture Building

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

Notes to Financial Statements

the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property.

In May 2012, the Foundation refinanced the original bonds issued in November 2007. As a result, new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds, including the portion originally planned to be paid from the collections of pledges. During fiscal year 2016, NDSU paid \$774,893 to the bond trustee on-behalf of the Foundation under the new leases for debt service on Barry Hall & Klai Hall. During fiscal year 2016, the Foundation paid \$332,150 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, 2016 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$10.065 million and the portion payable by the Foundation to NDSU for the collection of pledges is recognized by NDSU as a current & non-current "Due from Component Units" for \$299,085.

Other Transactions

NDSU also has agreements in place with the Foundation for maintenance of the University's alumni records, for use and insurance on certain land and building. Amounts paid by NDSU under these agreements as of June 30, 2016 totaled \$645,575.

NDSU pays the Foundation rent under operating lease agreements for two buildings (Criminal Justice and Graduate Center), as well as pasture rent paid from NDSU's Agricultural Experiment Station. Those operating lease payments totaled \$138,938 during fiscal year 2016. In addition to the debt service payments on the Fargodome, Renaissance, Barry and Klai Halls, NDSU reimburses the FOUNDATION for other operating expenses related to those buildings, such as property insurance, flood insurance, boiler inspection fees, real estate taxes and bond administrative fees. Those costs totaled \$89,112 during fiscal year 2016.

The Foundation's 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 2016.

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, 2016, using the “functional classification” are presented below:

Operating Expenses	
Instruction	\$ 99,505,630
Academic Support	31,103,646
Student Services	34,428,745
Institutional Support	14,550,484
Physical Plant	29,447,118
Scholarships & Fellowships	14,412,061
Auxiliary Services	36,493,976
Public Service	33,370,387
Research	92,634,021
Depreciation & Amortization	23,141,528
Total	<u>\$ 409,087,596</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.

Notes to Financial Statements

Future Minimum Lease Payments at June 30, 2016:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2017	\$ 1,641,661
2018	1,195,439
2019	386,813
2020	49,477
Total	<u>\$ 3,273,390</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 a 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.

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

Notes to Financial Statements

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.

The settlement proceeds to NDSU are less than the total expenditures on the project and on December 10, 2015 the SBHE approved NDSU's request to seek a deficiency appropriation during the 2017 (65th) Legislative Assembly for the unreimbursed costs of \$1,634,853.52 due to the Minard Hall collapse.

NDSU provided a status update on the project to the Legislative Budget Section on December 16, 2015 as required per HB1003-Section 27 and has also provided information to the system office in August 2016 for a deficiency appropriation request with OMB. If approved, the deficiency appropriation would take place before June 30, 2017.

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, 2016 is \$324,318.

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

As of June 30, 2016 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, 2016 was \$1,634,854.

Minard Hall Collapse related costs include related change orders, department relocation, forensic and legal costs. All three litigations relating to the Minard Hall project were settled by NDSU pursuant to authority granted by the SBHE on May 14, 2015. All settlement payments have been made, and the litigations have been dismissed. The settlement proceeds to NDSU are less than its total expenditures on the project and on December 10, 2015 the SBHE approved NDSU's request to seek a deficiency appropriation during the 2017 (65th) Legislative Assembly for the unreimbursed costs of \$1,634,854 due to the Minard Hall collapse. If approved, the deficiency appropriation would take place before June 30, 2017.

Note 24 – Subsequent Events

On July 27, 2016, the NDSU Research & Technology Park issued Taxable Lease Revenue Refunding Bonds (North Dakota State University Lease Obligation), Series 2016, of \$18,790,000. The bonds were issued to advance refund NDSU Research & Technology Park Lease Revenue Bonds, Series 2007A and 2007B, with outstanding principal balances of \$2,705,000 and \$15,150,000, respectively.

On August 2, 2016, NDSU issued North Dakota State University Housing and Auxiliary Facilities Revenue Refunding Bonds, Series 2016, of \$10,405,000. The bonds were issued to advance refund North Dakota State University Housing and Auxiliary Facilities Revenue Bonds, Series 2007A, with an outstanding principle balance of \$10,170,000.

North Dakota State University
Supplementary Information - Component Units
Statement of Financial Position
For Year Ended June 30, 2016

FASB BASIS

	Major Component Units	
	NDSU	NDSU Research & Technology Park
	Foundation and Alumni Association	Park
	December 31, 2015	June 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,915,264	\$ 2,548,102
Short-term investments	10,084,803	
Accounts receivable, net	3,626,853	62,875
Unconditional promises to give, net	8,414,881	2,500
Inventories		
Other assets	136,871	26,916
Total Current Assets	\$ 39,178,672	\$ 2,640,393
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 5,376,399	
Investments, net of current portion	138,002,139	
Real estate held for investment, net	38,024,360	
Endowment Investments		
Contracts for deed and notes receivable	962,250	
Long term pledges receivable	20,641,713	\$ 4,000
Notes Receivable, net		6,490,000
Other noncurrent assets	537,544	396,090
Capital assets, net	3,386,638	23,174,582
Total Noncurrent Assets	\$ 206,931,043	\$ 30,064,672
Total Assets	\$ 246,109,715	\$ 32,705,065

Statement of Financial Position - Continued

FASB BASIS

	Major Component Units	
	NDSU	NDSU Research
	Development Foundation December 31, 2015	& Technology Park June 30, 2016
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 440,185	\$ 195,877
Payable to Primary Institution	50,511	
Accrued payroll		26,897
Current portion of gifts annuities and life income agreements	896,159	
Deferred revenue	16,137	
Other current liabilities	251,979	
Long-term liabilities—current portion	1,260,652	1,290,931
Total Current Liabilities	\$ 2,915,623	\$ 1,513,705
Noncurrent Liabilities		
Long-term portion of split-interest agreeer	5,520,953	
Other noncurrent liabilities		
Long-term liabilities	22,044,368	23,559,770
Total Noncurrent Liabilities	\$ 27,565,321	\$ 23,559,770
Total Liabilities	\$ 30,480,944	\$ 25,073,475
NET POSITION		
Temporarily restricted	\$ 37,574,402	\$ 6,500
Permanently restricted	146,379,179	
Unrestricted	31,675,190	7,625,090
Total Net Position	\$ 215,628,771	\$ 7,631,590

North Dakota State University
Supplementary Information - Component Units
Statement of Activities
For Year Ended June 30, 2016

FASB BASIS

	Major Component Units	
	NDSU	NDSU Research & Technology Park
	Foundation and Alumni Association	
	December 31, 2016	June 30, 2016
Support and revenue		
Gifts and contributions	\$ 21,628,083	\$ 285,807
Investment Income	4,711,113	17,457
Net realized and unrealized gains (losses) on investments	(4,446,107)	
Program and event income		134,250
Other Income	1,111,067	2,731,135
Total support and revenue	\$ 23,004,156	\$ 3,168,649
Expenses		
Program Services	\$ 19,031,684	\$ 1,117,315
Supporting Services	7,996,255	1,528,952
Fund raising expense		
Total expenses	\$ 27,027,939	\$ 2,646,267
Change in Split-Interest Agreement	\$ -	\$ -
Change in Net Assets	\$ (4,023,783)	\$ 522,382
Net Position, Beginning of Year	\$ 219,652,554	\$ 7,109,208
Net Position, End of Year	\$ 215,628,771	\$ 7,631,590