

NDSU

NORTH DAKOTA STATE UNIVERSITY

Annual Financial Report
June 30, 2019

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North Dakota State University

Management's Discussion and Analysis

JUNE 30, 2019

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, 2019. It is designed to focus on current year activities in an effort to assist readers in understanding how those activities impacted the accompanying financial statements.

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

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

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

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

Background Information

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

Management's Discussion and Analysis

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 \$722 million and total liabilities of \$264 million, and a net position total of \$477 million (an increase of \$15 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, 2019 and 2018:

| | 2019 | 2018 | Dollar Change | Percent Change |
|--|-----------------------|-----------------------|-----------------------|-------------------|
| ASSETS | | | | |
| Current assets | \$ 132,025,796 | \$ 100,218,142 | \$ 31,807,654 | 32% |
| Other non-current assets | 69,904,602 | 114,509,062 | (44,604,460) | -39% |
| Capital assets, net | 520,104,547 | 487,480,181 | 32,624,366 | 7% |
| Total assets | <u>\$ 722,034,945</u> | <u>\$ 702,207,385</u> | <u>\$ 19,827,560</u> | <u>3%</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 24,476,108</u> | <u>\$ 27,449,125</u> | <u>\$ (2,973,017)</u> | <u>-11%</u> |
| LIABILITIES | | | | |
| Current liabilities | \$ 50,874,229 | \$ 42,883,091 | \$ 7,991,138 | 19% |
| Noncurrent liabilities | 212,868,554 | 220,371,342 | (7,502,788) | -3% |
| Total liabilities | <u>\$ 263,742,783</u> | <u>\$ 263,254,433</u> | <u>\$ 488,350</u> | <u>0%</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 5,174,803</u> | <u>\$ 3,892,152</u> | <u>\$ 1,282,651</u> | <u>33%</u> |
| NET POSITION | | | | |
| Invested in capital assets, net | \$ 374,282,395 | \$ 356,976,862 | \$ 17,305,533 | 5% |
| Restricted | 19,978,724 | 19,615,003 | 363,721 | 2% |
| Unrestricted | 83,332,348 | 85,918,060 | (2,585,712) | -3% |
| Total net position | <u>\$ 477,593,467</u> | <u>\$ 462,509,925</u> | <u>\$ 15,083,542</u> | <u>3%</u> |
| Current Ratio (current assets to current liabilities) | <u>2.60</u> | <u>2.34</u> | | |
| Primary Reserve Ratio (expendable net assets to operating expenses) | <u>0.25</u> | <u>0.26</u> | | |

The increase in current assets and decrease non-current assets in fiscal 2019 is primarily due to an increase of \$24 million in Bank of North Dakota Certificates of Deposits (CDs) maturing in the following year. Of this \$24 million, \$14 million is due to an early redemption of CDs done on July 3, 2019 to take advantage of higher interest rates.

The increase in current liabilities is due to higher than normal June 2019 construction billings paid in July 2019.

No new long-term debt was issued to acquire capital assets in fiscal 2019.

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

Management's Discussion and Analysis

Statement of Revenues, Expenses, and Changes in Net Position

The following table shows a condensed version of Statement of Revenues, Expenses and Changes in Net Position, with operating and non-operating revenues and expenses combined, as of June 30, 2019 and 2018:

| | 2019 | 2018 | Dollar Change | Percent Change |
|---|-----------------------|-----------------------|----------------------|----------------|
| Revenues | | | | |
| Student tuition and fees | \$ 118,209,698 | \$ 120,082,759 | \$ (1,873,061) | -2% |
| Grants, contracts, (operating and nonoperating) | 77,260,246 | 81,065,741 | (3,805,495) | -5% |
| State appropriations (operating and nonoperating) | 117,953,770 | 114,314,538 | 3,639,232 | 3% |
| Sales and services of educational departments | 35,448,034 | 32,691,045 | 2,756,989 | 8% |
| Auxiliary enterprises | 40,934,016 | 45,258,273 | (4,324,257) | -10% |
| Gifts | 31,628,825 | 17,584,584 | 14,044,241 | 80% |
| Other, (operating and nonoperating) | 4,607,959 | 4,411,160 | 196,799 | 4% |
| Total revenues | \$ 426,042,548 | \$ 415,408,100 | \$ 10,634,448 | 3% |
| Expenses | | | | |
| Salaries and wages | \$ 275,004,047 | \$ 273,804,949 | \$ 1,199,098 | 0% |
| Operating expenses | 99,772,050 | 98,759,149 | 1,012,901 | 1% |
| Depreciation expense | 25,787,635 | 25,425,451 | 362,184 | 1% |
| Scholarships and fellowships | 7,065,578 | 6,958,150 | 107,428 | 2% |
| Other, (operating and nonoperating) | 3,329,694 | 3,930,168 | (600,474) | -15% |
| Total expenses | \$ 410,959,004 | \$ 408,877,867 | \$ 2,081,137 | 1% |
| Increase (decrease) in net assets | \$ 15,083,544 | \$ 6,530,233 | \$ 8,553,311 | 131% |
| Net Position, Beginning of Year, as restated | \$ 462,509,923 | \$ 458,269,713 | \$ 4,240,210 | 1% |
| Net Position, End of Year | \$ 477,593,467 | \$ 464,799,946 | \$ 12,793,521 | 3% |

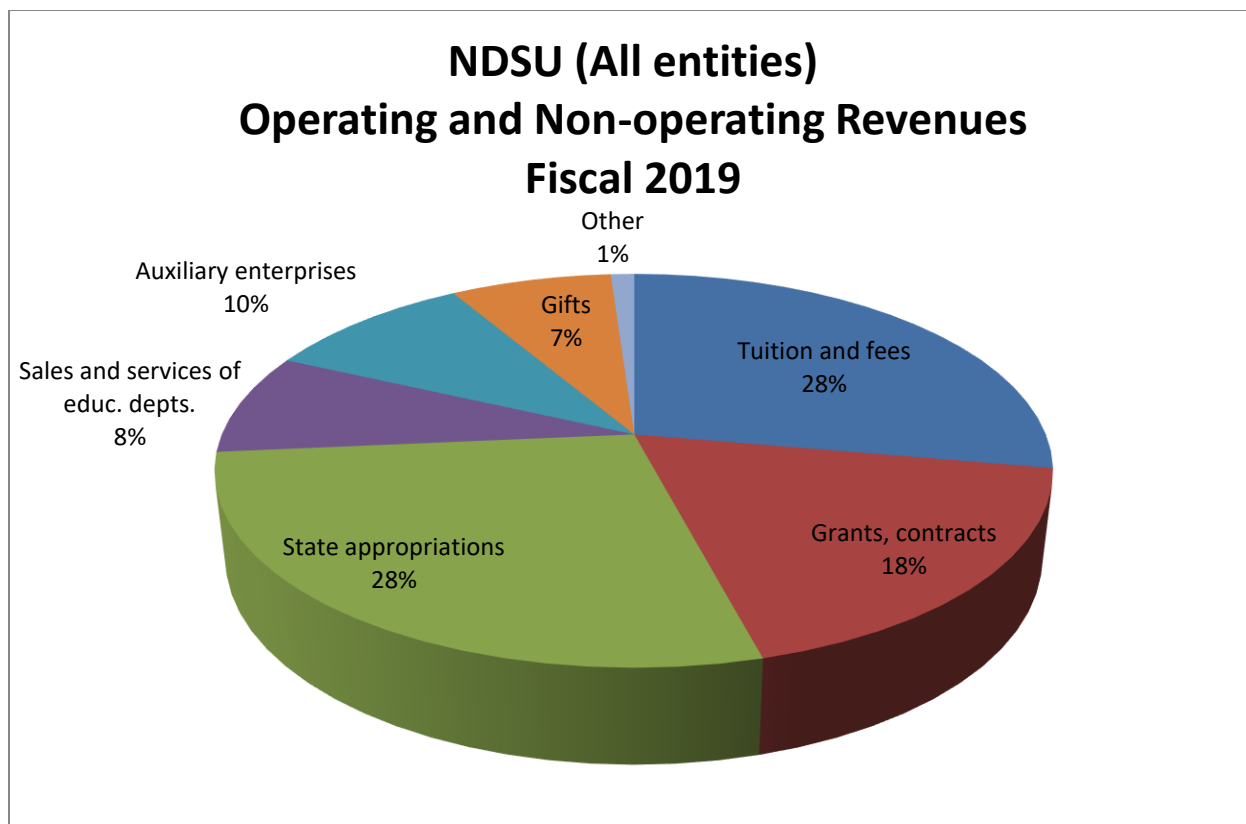
Overall, revenues increased 3% and expenses increased 1% from 2018 to 2019.

The largest line item increase is the 80% increase in gifts revenue. This is primarily the result of donations from the NDSU Foundation and Alumni Association to finance a major capital project - the Sudro Hall Addition.

The decrease in auxiliary enterprise revenues is primarily due to the 3.9% decrease in student enrollment. Bookstore and Residence Life departments were especially impacted by this enrollment decline. University bookstore revenues are decreasing nationally due to a trend away from using standard textbooks for instruction, as well as other non-university alternatives for students, including online resources.

Graphs

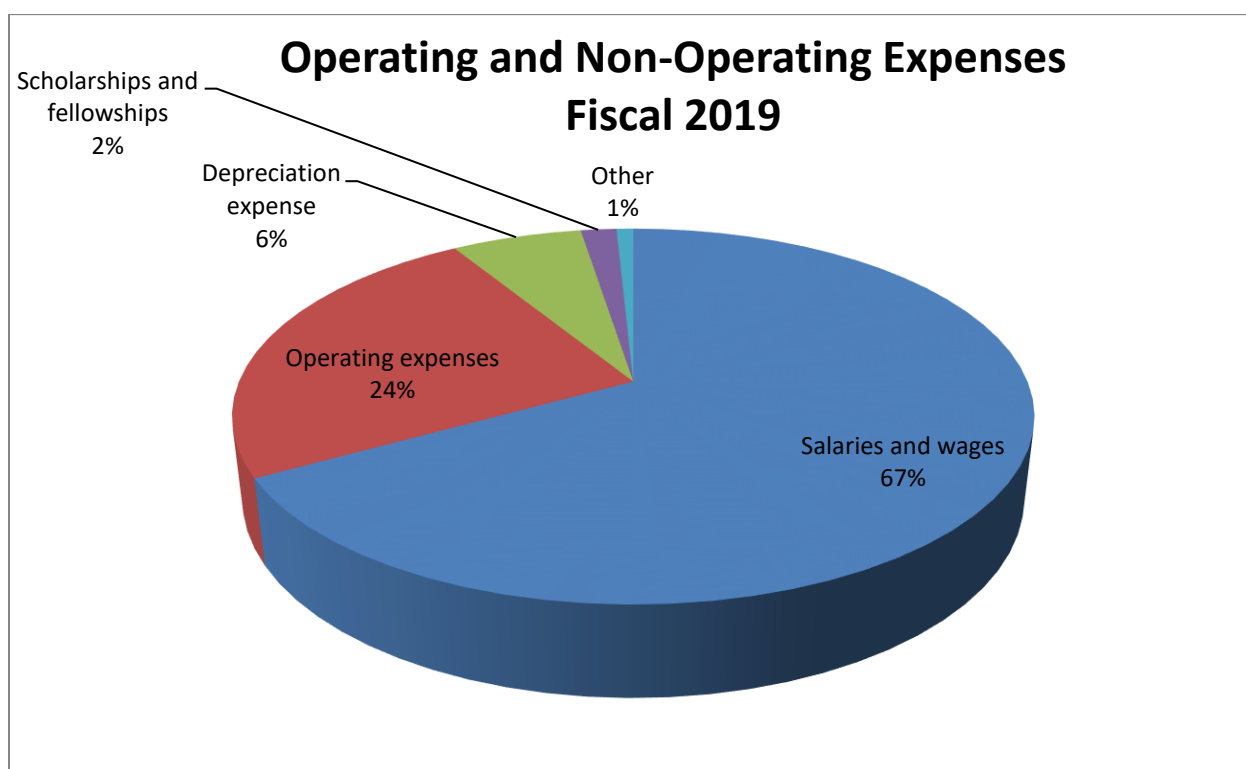
The following graph depicts sources of operating and non-operating revenues for fiscal year 2019:



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

Management's Discussion and Analysis

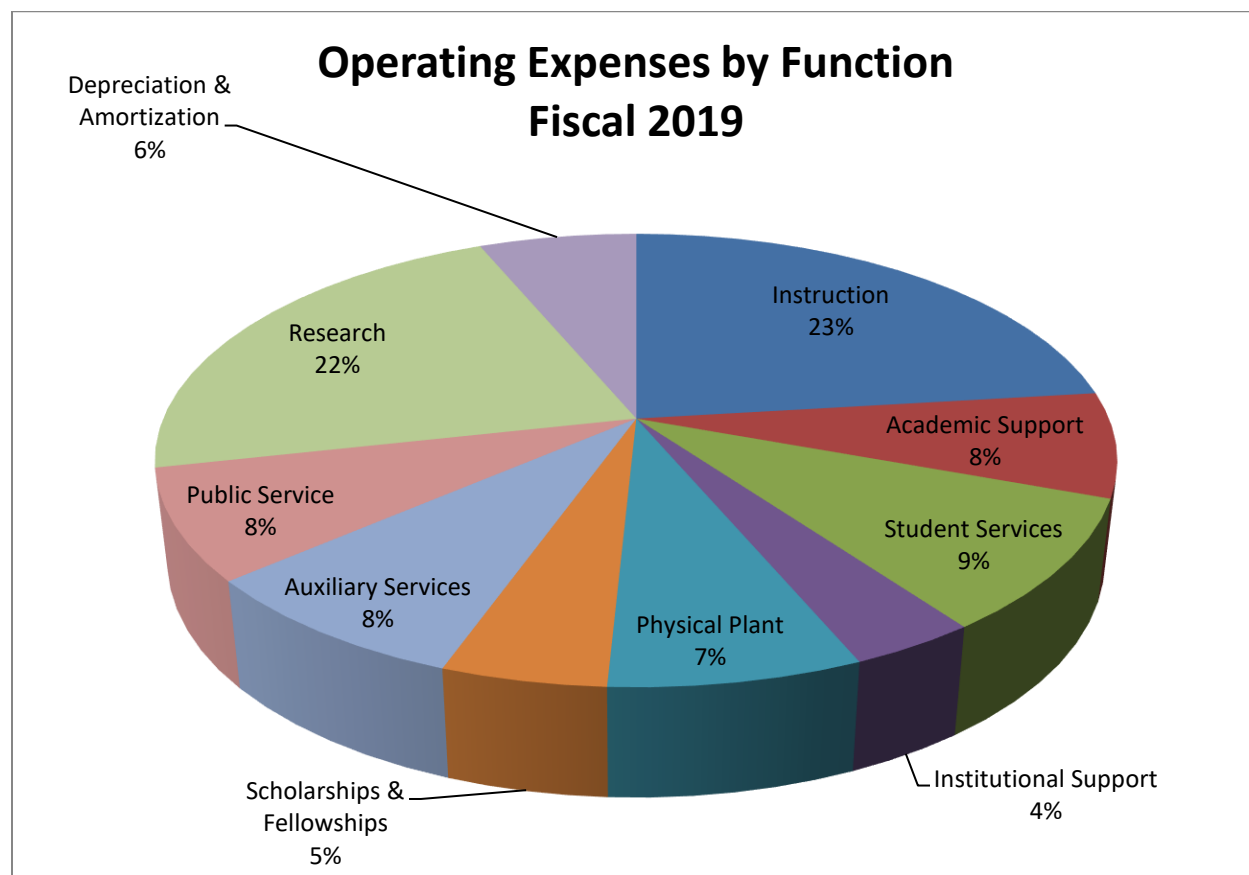
The following graph depicts objects of operating and non-operating expenses, by natural classification, for fiscal year 2019:



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

Management's Discussion and Analysis

The following graph depicts operating expenses only, by institutional function, for fiscal year 2019:



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

Financial Ratios

| | 2019 | 2018 |
|---|------|------|
| Current Ratio (current assets to current liabilities) | 2.60 | 2.34 |
| Primary Ratio (expendable net position to operating expense) | 0.25 | 0.26 |
| Viability Ratio (expendable net position to long-term debt) | 0.65 | 0.67 |
| Higher Learning Commission's Composite Financial Index (CFI): | | |
| 1. CFI, including CU's and including GASB 68 & 75 | 2.43 | 3.06 |
| 2. CFI, excluding CU's and including GASB 68 & 75 | 1.46 | 1.38 |
| 3. CFI including CU's and excluding GASB 68 & 75 | 3.03 | 3.55 |
| 4. CFI excluding CU's and excluding GASB 68 & 75 | 2.13 | 1.95 |
| (CU's = Component Units) | | |

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, 2019, is 0.25, which indicates that in an emergency situation, the University could continue its current operations for approximately 13 weeks.

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. There was no material change in NDSU's viability ratio in fiscal 2019.

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

Management's Discussion and Analysis

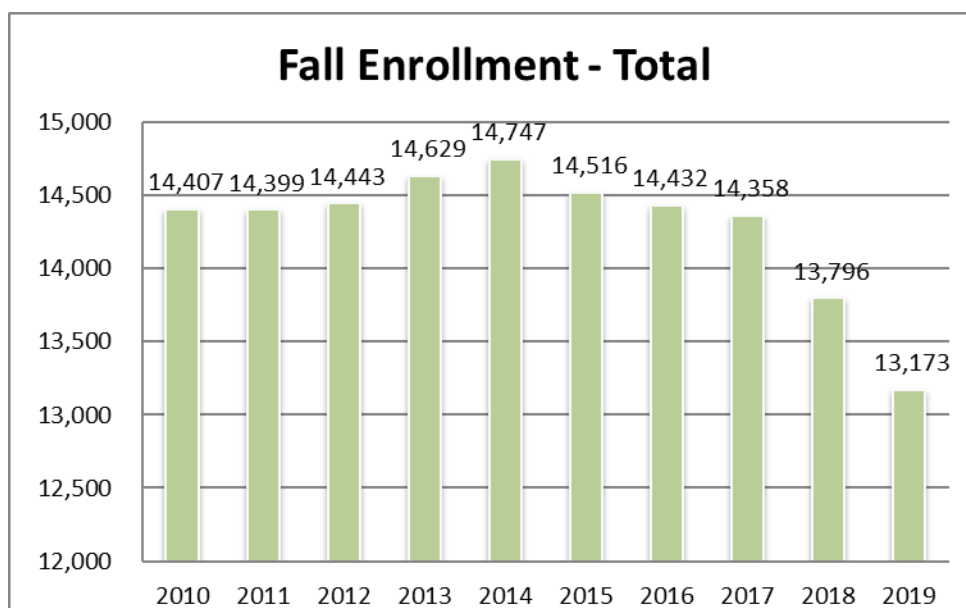
ratios. A CFI less than 1.0 for two consecutive years is a flag to the HLC that an institution will need a special review to gain or retain its accreditation. NDSU's CFI is well above the 1.0 benchmark at 2.43 for fiscal 2019, which is well over the level set by the HLC requiring a review.

The most significant factor in the decrease from fiscal 2018 is the financial activity of the NDSU Foundation and Alumni Association. Unrealized investment losses were recognized in the Foundation's financial activity during the Foundation's fiscal year ended December 31, 2018. Without the Component Units (Affiliated Foundations) the university CFI actually increased in fiscal 2019.

Other Highlights

Student Enrollment

NDSU's fall headcount student enrollment has been trending downward since 2014. NDSU's fall headcount enrollment for fall 2019 was 13,173 students, which represents about 30% of the student enrollment for the entire ND University system. NDSU's fall headcount enrollment for the last nine fall terms is shown below:



Financial Contact

The University's financial statements are designed to present users with a general overview of the University's finances and to demonstrate accountability. The NDSU Accounting Office is responsible for the contents of this report. If you have questions about the report or need additional financial information, contact the NDSU Accounting Office, Gary Wawers, Controller, at gary.wawers@ndsu.edu, or Lisa Ripplinger, at lisa.m.riplinger@ndsu.edu, or Travis.aho.1@ndsu.edu.

Basic Financial Statements

North Dakota State University Statement of Net Position For Years Ended June 30, 2019 & 2018

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 53,493,368 | \$ 53,258,080 |
| Short-term investments | 40,000,098 | 16,000,407 |
| Accounts receivable, net | 6,326,510 | 5,346,815 |
| Due from other NDUS institutions | 1,023,291 | 119,935 |
| Due from component units | 6,092,647 | 453,002 |
| Due from State General Fund | 8,525,296 | 6,906,821 |
| Grants & contracts receivable, net | 13,190,399 | 14,688,600 |
| Inventories | 1,549,373 | 1,362,571 |
| Notes receivable, net | 1,310,042 | 1,568,620 |
| Other assets | 514,772 | 513,291 |
| Total Current Assets | \$ 132,025,796 | \$ 100,218,142 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | \$ 1,963,290 | \$ 1,929,624 |
| Restricted investments | 5,420,306 | 30,260,826 |
| Endowment investments | 459,111 | 448,739 |
| Notes receivable, net | 4,700,548 | 5,611,953 |
| Other long-term investments | 56,918,352 | 75,813,976 |
| Due from Component Units | 52,798 | 53,747 |
| Other noncurrent assets | 390,197 | 390,197 |
| Capital assets, net | 520,104,547 | 487,480,181 |
| Total Noncurrent Assets | \$ 590,009,149 | \$ 601,989,243 |
| Total Assets | \$ 722,034,945 | \$ 702,207,385 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | \$ 24,476,108 | \$ 27,449,125 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 17,393,582 | \$ 11,725,940 |
| Due from other institutions | 671,043 | 303,369 |
| Accrued payroll | 12,292,924 | 12,442,524 |
| Unearned revenue | 9,485,214 | 8,417,686 |
| Deposits | 1,474,743 | 1,670,330 |
| Long-term liabilities—current portion: | | |
| Payable to component units | 2,427,563 | 2,352,821 |
| Payable to others | 7,129,160 | 5,970,421 |
| Total Current Liabilities | \$ 50,874,229 | \$ 42,883,091 |
| Noncurrent Liabilities | | |
| Pension Liability | \$ 52,649,808 | \$ 51,083,526 |
| OPEB Liability | 2,328,558 | 2,404,117 |
| Payable to others | | 77,067 |
| Long-term liabilities: | | |
| Payable to component units | 25,221,384 | 27,648,947 |
| Payable to others | 132,668,804 | 139,157,685 |
| Total Noncurrent Liabilities | \$ 212,868,554 | \$ 220,371,342 |
| Total Liabilities | \$ 263,742,783 | \$ 263,254,433 |
| DEFERRED INFLOWS OF RESOURCES | | |
| | \$ 5,174,803 | \$ 3,892,152 |

Statement of Net Position - Continued on Next Page

Basic Financial Statements

Statement of Net Position - Continued

| | <u>2019</u> | <u>2018</u> |
|--|------------------------------|------------------------------|
| NET POSITION | | |
| Invested in Capital Assets, net of related debt | \$ 374,282,395 | \$ 356,976,862 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellow ships | 513,982 | 514,931 |
| Expendable: | | |
| Scholarships and fellow ships | 975,867 | 1,252,141 |
| Research | 7,705,303 | 6,471,999 |
| Instructional department uses | 872,959 | 1,105,657 |
| Loans | 7,682,391 | 7,580,526 |
| Capital projects | 69,230 | 721,115 |
| Debt service | 2,158,992 | 1,968,634 |
| Unrestricted | 83,332,348 | 85,918,060 |
| Total Net Position | <u>\$ 477,593,467</u> | <u>\$ 462,509,925</u> |

Basic Financial Statements

North Dakota State University Statement of Revenues, Expenses, & Other Changes in Net Position For Years Ended June 30, 2019 & 2018

| | <u>2018</u> | <u>2018</u> |
|---|-------------------------|-------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student tuition and fees | \$ 118,209,698 | \$ 120,082,759 |
| Federal Grants and Contracts | 41,412,174 | 41,133,817 |
| State Grants and Contracts | 8,270,257 | 8,675,385 |
| Private Grants & Contracts | 11,493,520 | 12,109,851 |
| Sales and services of educational departments | 35,448,034 | 32,691,045 |
| Auxiliary enterprises | 40,934,016 | 45,258,273 |
| Other Operating Revenue | 348,835 | 378,524 |
| Total operating revenues | \$ 256,116,534 | \$ 260,329,654 |
| EXPENSES | | |
| Operating expenses: | | |
| Salaries and wages | \$ 275,004,047 | \$ 273,804,949 |
| Operating expenses | 88,241,976 | 86,028,908 |
| Data Processing | 4,823,385 | 3,908,912 |
| Depreciation Expense | 25,787,635 | 25,425,451 |
| Scholarships and fellow ships | 7,065,578 | 6,958,150 |
| Cost of Sales and services | 6,706,689 | 8,821,329 |
| Total operating expenses | \$ 407,629,310 | \$ 404,947,699 |
| Operating income (loss) | \$ (151,512,776) | \$ (144,618,045) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | \$ 115,371,328 | \$ 112,020,735 |
| Federal Appropriations | 5,029,495 | 7,482,072 |
| Federal grants and contracts | 11,269,065 | 11,525,138 |
| Gifts | 14,661,558 | 15,039,830 |
| Investment income | 4,110,410 | 4,624,558 |
| Interest on capital asset - related debt | (3,829,694) | (3,930,168) |
| Gain/(Loss) on capital assets | (235,682) | (133,891) |
| Insurance Proceeds | 503,763 | 326,531 |
| Transfer to Industrial Commission | 500,000 | (268,642) |
| Tax Revenues | (285,790) | 500,000 |
| Other nonoperating revenues over (under) expenses | 166,423 | (1,284,562) |
| Net nonoperating revenues | \$ 147,260,876 | \$ 145,901,601 |
| Income (loss) before capital grants, gifts and transfers | \$ (4,251,900) | \$ 1,283,556 |
| State appropriations - capital assets | \$ 2,582,442 | \$ 2,293,803 |
| Capital grants and gifts | 16,753,002 | 2,684,232 |
| Total other revenues (expenses) | \$ 19,335,444 | \$ 4,978,035 |
| Increase (decrease) in net position | \$ 15,083,544 | \$ 6,261,591 |
| NET POSITION | | |
| Net Position - beginning of year, | \$ 462,509,923 | \$ 458,269,713 |
| Prior Period Adjustment- GASB 75 - OPEB Liability | | \$ (2,021,381) |
| Net Position - end of year | \$ 477,593,467 | \$ 462,509,923 |

Basic Financial Statements

North Dakota State University Statement of Cash Flows For Years Ended June 30, 2019 & 2018

| | <u>2019</u> | <u>2018</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 117,497,476 | \$ 120,121,720 |
| Grants and Contracts | 63,087,094 | 60,901,975 |
| Payments to suppliers | (97,006,532) | (101,409,333) |
| Payments to employees | (269,870,484) | (271,243,790) |
| Payments for scholarships and fellow ships | (7,065,579) | (6,958,150) |
| Loans issued to students | (66,635) | (1,290,860) |
| Collection of loans to students | 1,225,898 | 1,257,421 |
| Auxiliary enterprise charges | 41,093,887 | 45,505,305 |
| Sales and services of educational departments | 35,705,099 | 32,566,532 |
| Cash received (paid) on deposits | (63,744) | (12,523) |
| Other receipts (payments) | 436,709 | (235,253) |
| Net cash provided (used) by operating activities | \$ (115,026,811) | \$ (120,796,956) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | \$ 115,297,523 | \$ 117,120,851 |
| Federal appropriations | 5,029,495 | 7,482,072 |
| Grants and gifts received for other than capital purposes | 25,420,509 | 26,576,770 |
| Direct Lending Receipts | 53,609,850 | 54,466,471 |
| Direct Lending Disbursements | (53,609,850) | (54,466,471) |
| Agency fund cash increase (decrease) | (954,992) | 126,291 |
| Transfers to Industrial Commission | (285,791) | (268,643) |
| Tax revenues | 500,000 | 500,000 |
| Net cash provided/(used) by financing activities | \$ 145,006,744 | \$ 151,537,341 |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from issuance of debt | \$ - | \$ 74,662,082 |
| Capital appropriations | 1,037,773 | 4,744,875 |
| Capital grants and gifts received | 11,619,472 | 2,650,433 |
| Purchases of capital assets | (55,647,074) | (45,233,459) |
| Insurance proceeds | 503,764 | 326,527 |
| Principal paid on capital debt and lease | (7,014,662) | (6,606,057) |
| Deposits with capital debt and lease | - | (22,540,000) |
| Interest paid on capital debt and lease | (3,974,303) | (5,044,077) |
| Net cash provided/(used) by capital and related financing activities | \$ (53,475,030) | \$ 2,960,324 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | \$ 40,983,413 | \$ 6,086,646 |
| Interest on Investments | 3,668,516 | 3,538,031 |
| Purchases of investments | (20,887,878) | (40,969,984) |
| Net cash provided/(used) by investing activities | \$ 23,764,051 | \$ (31,345,307) |
| Net increase (decrease) in cash | \$ 268,954 | \$ 2,355,402 |
| Cash - Beginning of year | \$ 55,187,704 | \$ 52,832,302 |
| Cash - End of year | \$ 55,456,658 | \$ 55,187,704 |

Statement of Cash Flows - Continued on Next Page

Basic Financial Statements

Statement of Cash Flows - Continued

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|-------------------------|
| Operating Income (loss) | \$ (151,512,774) | \$ (144,618,045) |
| Adjustments: | | |
| Depreciation | 25,787,635 | 25,425,451 |
| Other nonoperating revenues (expenses) | 89,357 | (983,247) |
| Change in assets and liabilities: | | |
| Accounts receivable adjusted for interest receivable | (1,107,443) | (465,445) |
| Intergovernmental receivables | 1,990,038 | (1,082,795) |
| Inventories | (186,803) | 439,246 |
| Notes receivable | 1,169,984 | 13,215 |
| Other assets | (1,481) | 369,469 |
| Accounts payable and accrued liabilities adjusted for interest payable | 3,044,732 | (2,727,511) |
| Pension Liability | 1,566,282 | 18,207,966 |
| OPEB Liability | (75,559) | 382,741 |
| Net change in deferred outflow s | 2,816,422 | (14,313,159) |
| Net change in deferred inflow s | 1,282,831 | 584,005 |
| Accrued payroll | (134,763) | (2,146,875) |
| Compensated absences | (400,546) | (87,801) |
| Deferred revenue | 709,023 | 218,350 |
| Deposits | (63,744) | (12,521) |
| Net cash provided (used) by operating activities | \$ (115,026,809) | \$ (120,796,956) |

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

| | | |
|---|------------------|---------------------|
| Assets acquired through capital lease | \$ - | \$ - |
| Expenses paid by capital lease | - | 450,262 |
| Gifts of capital assets | - | 11,700 |
| Net Increase (Decrease) in value of investments | 52,506 | 777,769 |
| Total non cash transactions | \$ 52,506 | \$ 1,239,731 |

Notes to Financial Statements

JUNE 30, 2019

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 (SBHE) is the governing body for North Dakota's eleven publicly supported colleges and universities. In addition to these eleven institutions, the SBHE also oversees the Agricultural Research Centers, Agronomy Seed Farm, North Dakota Cooperative Extension Service, Northern Crops Institute, School of Medicine and Health Sciences, the State Forest Service, and the Upper Great Plains Transportation Institute. The SBHE was established in 1939 when the voters of North Dakota approved an initiated measure to add Article VIII to the State Constitution. The SBHE consists of ten 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. A tenth member is a staff member (non-voting) selected by the statewide Staff Senate. The SBHE is an entity of the executive branch of the government of the State of North Dakota. The colleges and universities governed by the SBHE are collectively known and referred to as the North Dakota University System hereafter referred to as the System. The Board appoints a Commissioner of Higher Education (Chancellor) to serve as the chief executive officer of the Board and of the 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 System Office or NDUSO. 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 System Office and each institution on the PeopleSoft Finance Module. The financial statements presented here are also included in the comprehensive annual financial report of the State of North Dakota.

The System includes the following entities that were 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 SBHE. 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 System (the primary institution) and its component units. The component units are included in the System's reporting entity because of the significance of their operational or financial relationships with the System.

The component units' financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain amounts reported on the primary institution financial statements (receivables from and payables to component units) are not reflected on the component units' financial statements. A reclassification column has been added to the consolidating component unit's statement of financial position to reflect material inter-entity balances between the primary institutions and the component units. Certain other amounts have been reclassified for consistent presentation. Detailed component unit financial statements may be obtained at the respective addresses listed below.

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.

Notes to Financial Statements

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 System, exclusion would render the financial statements incomplete or misleading. Although the primary institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon that the entities hold and invest are restricted by the donors to the activities of the primary institution or its constituents. Therefore, these entities are discretely presented in the accompanying financial statements using Financial Accounting Standards Board (FASB) standards, including FASB 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. Component units that are significant relative to the other component units and to the primary institution are considered “major” component units and are displayed in separate columns in the component unit section of the accompanying financial statements and are included in Note 18 under Major Component Units. Component units that are not significant relative to the other component units and to the primary institution are considered “non-major” component units and are displayed in a combined column in the component unit section of the accompanying financial statements.

Major Component Units

The **NDSU Foundation and Alumni Association** is a legally separate non-profit corporation established to raise, manage, distribute, and steward private resources to support the various priorities of NDSU. The foundation engages in development and outreach activities on behalf of NDSU. The foundation is governed by an Executive Governing Board comprised of 11 voting members as well as two ex-officio members – the president of NDSU and the President/CEO of the foundation.

The foundation’s fiscal year-end is December 31. Financial statements and footnote disclosures are presented as of December 31, 2018. Financial statements may be obtained at their administrative office at 1241 N. University Drive, Fargo, ND 58102.

The **NDSU Research & Technology Park, Inc.**, is a legally separate non-profit organization developed 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 (nine of twelve) works in private industry. 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. Financial statements may be obtained at their administrative office at 1854 NDSU Research Circle North, Fargo, ND 58102.

Non-major Component Units

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

JOINT VENTURES

Tri-College University

Tri-College University (TCU) is a legally separate organization that is organized exclusively for educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. TCU's purpose is to assist in the establishment and maintenance of coordinated programs between Concordia College, Minnesota State University Moorhead, Minnesota State Community and Technical College – Moorhead, NDSCS and NDSU, as a means of maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the five member institutions. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. A ten-member board of directors, including the presidents of the five universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of the participating institutions. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2019, Tri-College University had net position of approximately \$657,153 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at North Dakota State University, Renaissance Hall, 650 NP Avenue 110, Fargo, ND 58102.

INSIGNIFICANT COMPONENT UNITS

The following organizations are component units of the NDSU but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than 1.0 percent each in total assets compared to total NDUS assets and less than 10 percent in payments to or from the primary institution. Separate boards of directors control these entities. In addition, the college or university does not exercise financial or administrative control over these entities and/or the entities' relationship with the primary institutions is not significant enough to warrant inclusion in the reporting entity's financial statements. The related organizations at June 30, 2019 were:

NDSU Research Foundation

NDSU Team Makers, Inc.

Alliance for Arts & Humanities

BASIS OF PRESENTATION

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

Notes to Financial Statements

BASIS OF ACCOUNTING

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

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

Unrestricted Net Position

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

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

Restricted Assets

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

Revenue and Expense Recognition

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

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

Notes to Financial Statements

Budgetary Process

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

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

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

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

Notes to Financial Statements

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

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

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

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

RECEIVABLES

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

INVENTORIES

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

CAPITAL AND INTANGIBLE ASSETS

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

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

Notes to Financial Statements

developed intangible assets with a unit cost of \$50,000 or more are recorded at cost and are amortized.

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

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

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

DEPOSITS

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

COMPENSATED ABSENCES

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

Pensions

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

Notes to Financial Statements

SCHOLARSHIP ALLOWANCES

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

NET Position

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

Restatement of Beginning Net Position

| | Primary Institution |
|---|------------------------|
| Fiscal 2019 | |
| Net Position, Beginning of the year, as previously reported | \$ 462,509,925 |
| No Prior Period Adjustments: | - |
| Net Position, Beginning of the year, as previously reported | <u>\$ 462,509,925</u> |

USE OF ESTIMATES

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

Notes to Financial Statements

New Accounting Pronouncements

Accounting Standards Implemented

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

In April 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement." This statement is effective for periods beginning after June 15, 2018. The statement adds additional disclosures for debt instruments.

Accounting Standards Issued but Not Yet Implemented

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

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

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

In December 2016, the GASB issued Statement No. 90, "Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61". The statement is effective for reporting periods beginning after December 15, 2018.

In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". The statement is effective for periods beginning after December 15, 2020.

The effect, if any, these statements will have on future financial statements has not 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, 2019 as follows:

| Deposits | Carrying Amount | Bank Balance | Uninsured Bank Balance | | |
|-----------------------------------|----------------------------|-------------------------|-------------------------------|--------------|------------|
| | | | (A) | (B) | (C) |
| Total Cash Deposits at BND | \$ 48,193,812 | \$ 55,200,273 | \$ 55,200,273 | | |
| CDs at BND | 90,000,000 | 90,000,000 | 90,000,000 | | |
| Total Cash Deposits at Other | 7,189,856 | 6,796,063 | | 6,467,344 | |
| CDs at Other | | | | | |
| Total Deposits | \$ 145,383,668 | \$ 151,996,336 | \$ 145,200,273 | \$ 6,467,344 | - |
| Cash on Hand/Petty Cash | 72,990 | | | | |
| Less amts reported as investments | (90,000,000) | | | | |
| Cash & Cash Equ-SNA | <u>\$ 55,456,658</u> | | | | |

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to it. The System does not specifically address policies concerning custodial credit risk and while the deposits in the Bank of North Dakota are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2019, \$524.2 million of the System's bank balance of \$526.6 million was exposed to custodial credit risk as follows:

Notes to Financial Statements

| | |
|---|------------------|
| Uninsured and uncollateralized | \$ 515.3 million |
| Uninsured and collateral held by pledging bank not in system's name | \$ 8.9 million |

Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2019, 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 | \$ - | \$ - | \$ - | | |
| Mutual Bond Funds | 195,579 | 195,579 | | | |
| Money market mutual funds | 5,420,404 | 5,420,404 | | | |
| Total Securities w/ Maturities | \$ 5,615,983 | \$ 5,615,983 | \$ - | \$ - | - |
| Other Invest Types: | | | | | |
| Stocks | \$ 192,451 | | | | |
| Exchange Traded Funds | 786,456 | | | | |
| Equity Mutual Funds | 31,315 | | | | |
| BND Cd's Credit risked as investments but reported as deposits | 90,000,000 | | | | |
| Investment in Real Estate | 6,171,662 | | | | |
| Total reported on SNA | \$ 102,797,867 | | | | |

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

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2019, the University's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

Notes to Financial Statements

| Investment Type | Market | Credit Quality Rating | |
|---------------------------|--------------|-----------------------|------------|
| | Value | AAA | Not Rated |
| Debt Securities: | | | |
| Mutual Bond Funds | \$ 195,579 | | \$ 195,579 |
| Money market mutual funds | \$ 5,420,404 | \$ 5,420,404 | |
| Total | \$ 5,615,983 | \$ 5,420,404 | \$ 195,579 |

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

Fair Value Hierarchy

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

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

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

The balances of assets measured at fair value on a recurring basis at June 30, 2019 are:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total Fair Value</u> |
|-----------------------|----------------|----------------|----------------|-------------------------|
| Equity Securities | \$ 192,451 | | | \$ 192,451 |
| Exchange Traded Funds | 786,456 | | | \$ 786,456 |
| Equity Mutual Funds | 31,315 | | | \$ 31,315 |
| Real Estate | | | \$ 6,171,662 | \$ 6,171,662 |
| Total | \$ 1,010,222 | \$ - | \$ 6,171,662 | \$ 7,181,884 |

Notes to Financial Statements

Note 3 – Receivables

Receivables at June 30, 2019 consist of the following amounts:

| | Current | NonCurrent | Total |
|--|----------------------|---------------------|----------------------|
| Student & General | \$ 9,549,613 | | \$ 9,549,613 |
| Interest Receivable | | | 0 |
| Allow ance for doubtful Accts | (3,437,859) | | (3,437,859) |
| Total Accounts Receivable, Net | <u>\$ 6,111,754</u> | | <u>\$ 6,111,754</u> |
| Grants & Contracts Receivable | \$ 9,899,516 | | \$ 9,899,516 |
| Due from Other State Agencies | 3,238,429 | | 3,238,429 |
| Total Grants & Contracts Receivable, Net | <u>\$ 13,137,945</u> | | <u>\$ 13,137,945</u> |
| Student | \$ 1,459,360 | \$ 5,239,329 | \$ 6,698,689 |
| Allow ance for Doubtful Notes | (149,318) | (538,781) | (688,099) |
| Total Notes Receivable, Net | <u>\$ 1,310,042</u> | <u>\$ 4,700,548</u> | <u>\$ 6,010,590</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, 2019 was as follows:

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| Land | \$ 10,552,252 | | | | \$ 10,552,252 |
| Construction in Progress | 29,979,758 | \$ 39,120,251 | | \$ (8,594,984) | 60,505,025 |
| Total non-depreciable capital assets | \$ 40,532,010 | \$ 39,120,251 | \$ - | \$ (8,594,984) | \$ 71,057,277 |
| Land Improvements/infrastructure | \$ 59,778,597 | \$ 4,052,055 | | | \$ 63,830,652 |
| Buildings | 573,230,857 | 8,153,001 | \$ 215,307 | \$ 8,594,984 | 589,763,535 |
| Furniture, fixtures, and equipment | 148,011,494 | 7,805,366 | \$ 3,162,448 | | 152,654,412 |
| Intangibles: | | | | | |
| Computer Software | 1,115,373 | 44,041 | 60,416 | | 1,098,998 |
| Other | 642,410 | | | | 642,410 |
| Library Materials | 16,379,381 | 128,763 | 198,648 | | 16,309,496 |
| Total Depreciable Capital Assets | \$ 799,158,112 | \$ 20,183,226 | \$ 3,636,819 | \$ 8,594,984 | \$ 824,299,503 |
| Less accumulated depreciation and amortization | | | | | |
| Land Improvements/infrastructure | \$ 36,677,624 | \$ 1,362,044 | | | \$ 38,039,668 |
| Buildings | 202,995,813 | 15,545,513 | \$ 168,040 | | 218,373,286 |
| Furniture, fixtures, and equipment | 96,542,171 | 8,327,979 | 2,324,491 | | 102,545,659 |
| Intangibles: | | | | | |
| Computer Software | 1,003,128 | 71,492 | 54,164 | | 1,020,456 |
| Other | 155,149 | 32,120 | | | 187,269 |
| Library Materials | 14,836,057 | 448,487 | 198,648 | | 15,085,896 |
| Total Accumulated depreciation and amortization | \$ 352,209,942 | \$ 25,787,635 | \$ 2,745,343 | \$ - | \$ 375,252,234 |
| Total Depreciable Capital Assets, net | \$ 446,948,171 | \$ (5,604,409) | \$ 891,476 | \$ 8,594,984 | \$ 449,047,270 |
| Capital Assets, net | \$ 487,480,181 | \$ 33,515,842 | \$ 891,476 | \$ - | \$ 520,104,547 |

Construction in progress for the year ended June 30, 2019 was as follows:

| Project | Amount | Expended | Expended | Authorized |
|---------------------------------------|----------------------|----------------------|----------------------------|---------------------|
| | Authorized | (CIP Balance) | (non-capitalized to bldgs) | Balance |
| Buidling Projects: | | | | |
| Carrington Seed Cleaning Plant | \$ 2,204,112 | \$ 1,121,036 | \$ 308,178 | \$ 774,898 |
| NCREC Seed Cleaning Plant | 2,204,112 | 233,926 | 506,468 | 1,463,718 |
| Catherine Cater Hall | 39,505,000 | 37,979,916 | 35,442 | 1,489,642 |
| Catherine Cater Hall - Capitalized | | | | |
| Interest Only | 2,823,919 | 2,823,919 | | - |
| Sudro Hall | 22,400,000 | 17,679,117 | | 4,720,883 |
| Indoor Practice Facility | 900,000 | 667,111 | | 232,889 |
| Construction in Progress Total | \$ 70,037,143 | \$ 60,505,025 | \$ 850,088 | \$ 8,682,030 |

Notes to Financial Statements

Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2019:

| | |
|--------------------------------------|----------------------|
| Accounts Payable | \$ 13,059,679 |
| Due to other state agencies | 6,222 |
| Sales Tax Payable | 20,000 |
| Accrued Interest | 1,118,631 |
| Contractor Payable/Retainage | 3,189,050 |
| Total Payables & Accrued Liabilities | <u>\$ 17,393,582</u> |

Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2019 are as shown below:

| | Beginning Balance | Additions | Retirements | Ending Balance | Current Portion | Non-Current Portion |
|----------------------------|-----------------------|-------------|---------------------|-----------------------|---------------------|-----------------------|
| Bonds Payable | \$ 122,052,389 | \$ - | \$ 4,047,755 | \$ 118,004,634 | \$ 5,097,755 | \$ 112,906,879 |
| Due to CU - Bonds Payable | 16,045,000 | | 1,325,000 | 14,720,000 | 1,350,000 | 13,370,000 |
| Capital Leases | 5,476,489 | | 741,117 | 4,735,372 | 680,134 | 4,055,238 |
| Due to CU - Capital Leases | 13,956,768 | | 1,027,821 | 12,928,947 | 1,077,563 | 11,851,384 |
| Special Assessments | 3,714,703 | | 140,724 | 3,573,979 | 145,803 | 3,428,176 |
| Compensated Absences | 13,884,525 | | 400,546 | 13,483,979 | 1,205,468 | 12,278,511 |
| Total | <u>\$ 134,636,716</u> | <u>\$ -</u> | <u>\$ 7,682,963</u> | <u>\$ 167,446,911</u> | <u>\$ 9,556,723</u> | <u>\$ 157,890,188</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, 2019 is presented below and the detail is presented in the Supplementary Information section following these notes.

Notes to Financial Statements

| Bond Issue | Date of Issue | Maturity Date | Original Amount of Issue | Bonds Outstanding 6/30/18 | New Bonds issued this Fiscal Year | Bond Principal paid this Fiscal Year | Bonds Outstanding 6/30/19 |
|---|---------------|---------------|--------------------------|---------------------------|-----------------------------------|--------------------------------------|---------------------------|
| <u>Housing and Auxiliary System Revenue Bonds:</u> | | | | | | | |
| 2012A Refunding (Series 2002 LLC Bonds) | 3/1/2012 | 4/1/2027 | \$ 5,730,000 | \$ 3,665,000 | | \$ 375,000 | \$ 3,290,000 |
| 2014A Refunding (Series 2004 Bison Court) | 4/1/2014 | 4/1/2034 | 8,340,000 | 7,055,000 | | 345,000 | 6,710,000 |
| 2015A Refunding (Series 2005, 2006A & B) | 2/5/2015 | 4/1/2036 | 21,195,000 | 16,670,000 | | 1,640,000 | 15,030,000 |
| 2015B Aquatic Addition (Series 2004 Bison Court) | 6/24/2015 | 4/1/2035 | 9,355,000 | 8,435,000 | | 365,000 | 8,070,000 |
| 2016A Refunding (Series 2007 LLCE/Ceres) | 8/2/2016 | 4/1/2037 | 10,405,000 | 9,680,000 | | 395,000 | 9,285,000 |
| 2017A Cater Hall (New Issue) | 7/26/2017 | 4/1/2047 | 48,770,000 | 48,770,000 | | | 48,770,000 |
| 2017B Refunding (Series 2009 Niskanen/WDC) | 7/26/2017 | 4/1/2039 | 22,755,000 | 22,320,000 | | 660,000 | 21,660,000 |
| Subtotal - NDSU | | | \$ 126,550,000 | \$ 116,595,000 | \$ - | \$ 3,780,000 | \$ 112,815,000 |
| <u>NDSU Research & Tech Park, Inc.</u> | | | | | | | |
| Series 2016, Research 1 and 2 (Series 2007A & B, R1 and R2) | 7/27/2016 | 5/1/2032 | \$ 18,790,000 | \$ 16,045,000 | | \$ 1,325,000 | \$ 14,720,000 |
| Subtotal - NDSU Research & Tech Park, Inc. | | | \$ 18,790,000 | \$ 16,045,000 | \$ - | \$ 1,325,000 | \$ 14,720,000 |
| GRAND TOTAL BONDS PAYABLE | | | \$ 145,340,000 | \$ 132,640,000 | \$ - | \$ 5,105,000 | \$ 127,535,000 |

Scheduled Maturities of Bonds Payable

| Fiscal Year | Principal | Interest | Total |
|-------------|-----------------------|----------------------|-----------------------|
| 2020 | \$ 6,447,755 | \$ 4,619,317 | \$ 11,067,072 |
| 2021 | 6,642,755 | 4,420,555 | 11,063,310 |
| 2022 | 6,887,755 | 4,173,284 | 11,061,039 |
| 2023 | 6,642,755 | 3,906,554 | 10,549,309 |
| 2024 | 6,612,755 | 3,637,550 | 10,250,305 |
| 2025 - 2029 | 29,414,443 | 14,601,984 | 44,016,427 |
| 2030 - 2034 | 29,665,760 | 9,357,825 | 39,023,585 |
| 2035 - 2039 | 20,907,809 | 5,257,992 | 26,165,801 |
| 2040 - 2044 | 11,576,677 | 2,578,450 | 14,155,127 |
| 2045 - 2049 | 7,926,170 | 551,250 | 8,477,420 |
| | <u>\$ 132,724,634</u> | <u>\$ 53,104,761</u> | <u>\$ 185,829,395</u> |

Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2019.

Notes to Financial Statements

Note 10 – Capital Leases

The University leases various types of capital assets under capital lease agreements. Capital leases give rise to property rights and lease obligations and therefore, the assets under lease are recorded as assets of the institution and the lease obligation is recognized as a liability. The leases have varying interest rates with maturities to 2037.

A summary of the Capital Lease & Due to Component Unit activity for fiscal 2019 is as follows:

| LEASE NUMBER | Lease Start Date | DESCRIPTION | Terms (in Months) | PRINCIPAL BALANCE DUE 6/30/2018 | PRINCIPAL NEW LEASES | PRINCIPAL PAID | PRINCIPAL BALANCE DUE 6/30/2019 |
|--|------------------------|---|----------------------|---------------------------------------|-------------------------|---------------------|---------------------------------------|
| Capital Leases | | | | | | | |
| 0573 | 06/24/12 | Bank of America-Energy Savings Performance Contract | 168 | \$ 4,568,409 | | \$ 505,601 | \$ 4,062,808 |
| 0608 | 07/15/14 | Wells Fargo-Two Skid Steers, NHL L220; Blow Hard Bunk Clean | 60 | 13,185 | | 13,185 | - |
| 0636 | 09/23/15 | Wells Fargo-New Lanier Pro C7110SX Color MFP Prod. System | 36 | 9,537 | | 9,537 | - |
| 0637 | 07/15/15 | Wells Fargo-Used 2002 Case IH 220 Tractor w attachments | 60 | 23,628 | | 23,628 | - |
| 0643 | 06/12/16 | Wells Fargo-New Case Forage Wagon | 61 | 38,912 | | 38,912 | - |
| 0644 | 08/17/16 | Wells Fargo-Athletics Scoreboard/Media System | 84 | 822,817 | | 150,254 | 672,563 |
| | | | | <u>\$ 5,476,489</u> | <u>\$ -</u> | <u>\$ 741,117</u> | <u>\$ 4,735,372</u> |
| Due to Component Units - Capital Leases | | | | | | | |
| 0465 | 10/10/05 | NDSU Development Fnd-Fargodome-Paid from Gifts @ NDSUDF | 180 | \$ 741,768 | | \$ 297,821 | \$ 443,947 |
| 0476 | 11/29/07 | NDSU Development Foundation-Renaissance Hall | 303 | 4,085,000 | | 250,000 | 3,835,000 |
| 0586 | 11/29/07 | US Bank for NDSU Development Foundation-Barry & Klai Hall | 295 | 9,130,000 | | 480,000 | 8,650,000 |
| | | | | <u>\$ 13,956,768</u> | <u>\$ -</u> | <u>\$ 1,027,821</u> | <u>\$ 12,928,947</u> |
| | | Grand Total | | <u>\$ 19,433,257</u> | <u>\$ -</u> | <u>\$ 1,768,938</u> | <u>\$ 17,664,319</u> |

Scheduled Maturities of Capital Leases & Due to Component Units

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2020 | \$ 1,757,697 | \$ 618,530 | \$ 2,376,227 |
| 2021 | 1,611,711 | 554,795 | 2,166,506 |
| 2022 | 1,536,467 | 500,848 | 2,037,315 |
| 2023 | 1,438,592 | 448,583 | 1,887,175 |
| 2024 | 1,304,046 | 396,946 | 1,700,992 |
| 2025 - 2029 | 5,185,806 | 1,344,124 | 6,529,930 |
| 2030 - 2034 | 3,090,000 | 617,755 | 3,707,755 |
| 2035 - 2039 | 1,740,000 | 106,400 | 1,846,400 |
| | <u>\$ 17,664,319</u> | <u>\$ 4,587,981</u> | <u>\$ 22,252,300</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> |
|--------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 145,803 | \$ 314,952 | \$ 460,755 |
| 2021 | 152,850 | 314,952 | 467,802 |
| 2022 | 160,243 | 314,953 | 475,196 |
| 2023 | 163,236 | 310,191 | 473,427 |
| 2024 | 169,256 | 308,397 | 477,653 |
| 2025 - 2029 | 918,748 | 1,489,252 | 2,408,000 |
| 2030 - 2034 | 1,022,095 | 1,361,168 | 2,383,263 |
| 2035 - 2039 | 613,306 | 735,472 | 1,348,778 |
| 2040 - 2044 | 228,442 | 245,081 | 473,523 |
| | <u>\$ 3,573,979</u> | <u>\$ 5,394,418</u> | <u>\$ 8,968,397</u> |

Compensated Absences

The compensated absences liability as of June 30, 2019 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, 2019 and 2018 totaled \$13,483,979 and \$13,884,525, 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, 2019 consist of the following:

Deferred Outflows

| | |
|----------------|----------------------|
| Pension & OPEB | \$ 22,047,488 |
| Debt Refunding | 2,428,620 |
| | <u>\$ 24,476,108</u> |

Deferred Inflows

| | |
|---|---------------------|
| Pension | \$ 5,129,290 |
| Debt Refunding | 3,013 |
| Grant amounts received prior to meeting time requirements | 42,500 |
| | <u>\$ 5,174,803</u> |

Note 13 – Retirement Benefits

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

NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (NDPERS)

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

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

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

Notes to Financial Statements

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Notes to Financial Statements

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 7.0 percent and employer contribution rates are 7.12 percent of covered compensation.

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

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

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

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

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

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

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

TIAA RETIREMENT PLAN

Description of Plan

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

Funding Policy

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

Notes to Financial Statements

percent to 5.0 percent for participant contributions for employee contributions and from 12.0 percent to 13.0 percent for institution contributions.

| Employment Class | Years of Service | Contributions by the Participant | Contributions by the Institution |
|--|----------------------------|----------------------------------|----------------------------------|
| I and III | 0 thru 10 | 4.5% | 12.5% |
| | over 10 | 5.0% | 13.0% |
| II | 0 thru 2 | 3.5% | 7.5% |
| | 3 thru 10 | 4.5% | 12.5% |
| | over 10 | 5.0% | 13.0% |
| IV | Closed to new participants | 4.0% | 12.0% |
| President/Chancellor (additional employer contribution) | less than 3 | 0.0% | 0.0% |
| | 3 to less than 6 | 0.0% | 4.0% |
| | 6 yrs and over | 0.0% | 8.0% |
| | | | |
| | | | |

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The North Dakota University System has no further liability once annual contributions are made. The University System contributed \$42.3 million to TIAA-CREF during the fiscal years ending June 30, 2018.

Note 14 - Post Retirement Benefits

State Group Health Plan

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

See the audited NDUS Financial Report for the year ended June 30, 2019 for additional information.

Note 15 - Construction Commitments and Financing

NDSU has contracted for various construction projects as of June 30, 2019.

Estimated costs to complete the various projects and the sources of anticipated funding are as follows:

| Project | Contracts Awarded | Expended Through June 30, 2019 | Total Cost To Complete | Funding for remaining costs | | |
|--|----------------------|-----------------------------------|---------------------------|-----------------------------|------------------------|------------------|
| | | | | State Sources | Institutional Funds | Other Sources |
| Main Campus | | | | | | |
| Catherine Cater Hall | \$ 34,535,054 | \$ 34,463,416 | \$ 71,638 | | | \$ 71,638 |
| WDC Expansion | 3,120,855 | 2,946,032 | 174,823 | | 174,823 | |
| WDC Expansion PH II | 2,007,820 | 1,447,865 | 559,955 | | 559,955 | |
| Sudro Addition | 19,403,442 | 15,874,958 | 3,528,484 | | | 3,528,484 |
| Parking Lots - HR - AR | 1,792,951 | 866,650 | 926,301 | | 926,301 | |
| | | | | | | |
| Experiment Station & RE Centers | | | | | | |
| Carrington Seed Cleaning | 428,200 | 428,200 | - | | | |
| North Central Seed Cleaning | 657,551 | 176,022 | 481,529 | 481,529 | | |
| | | | | | | |
| | \$ 61,945,873 | \$ 56,203,143 | \$ 5,742,730 | \$ 481,529 | \$ 1,661,079 | \$ 3,600,122 |

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 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 year 2017, NDSU and the RTP entered into renewed agreements, whereby NDSU leases the Research Buildings I and II through June 30, 2032. During fiscal year 2019, total annual rent of \$312,000 was paid by NDSU for these two buildings, in addition to the \$1,780,195 of principal and interest paid by NDSU directly to the bond trustee. NDSU reimbursed the RTP \$30,556 for property insurance on the two buildings and 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.

Notes to Financial Statements

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 NDSUFAA for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2019, the Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$331,606.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the Foundation. NDSU has also recorded a capital asset and a capital lease payable, reflected as "Due to Component Units" by NDSU, of \$443,947 as of June 30, 2019. 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 alumni 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.

Notes to Financial Statements

NDSU paid the Foundation \$412,000 in fiscal year 2019 for debt service under this agreement. As of June 30, 2019, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$3.8 million.

Barry Hall Business Building and Klai Hall Architecture Building

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

In May 2012, the Foundation refinanced the original bonds issued in November 2007. As a result, new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for the entire amount of the previously issued bonds. During fiscal year 2019, NDSU paid \$774,320 to the bond trustee on-behalf of the Foundation under the new leases for debt service on Barry Hall & Klai Hall. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2019, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$8.65 million

Other Transactions

The Foundation provides meeting space rental and database support service to NDSU for an annually negotiated fee. NDSU paid the foundation \$679,131 for the fiscal year ending December 31, 2018.

In addition to the debt service payments on the Fargodome, Renaissance, Barry and Klai Halls, NDSU reimburses the Foundation for other operating expenses related to those buildings, such as property insurance, flood insurance, boiler inspection fees, real estate taxes and bond administrative fees. Those costs totaled \$104,111 during the fiscal year ending December 31, 2018.

Notes to Financial Statements

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 2019.

Note 18 – Functional Expense Classification

NDSU's 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, 2019, using the "functional classification" are presented below:

| Operating Expenses | |
|-----------------------------|------------------------------|
| Instruction | \$ 94,204,178 |
| Academic Support | 30,387,249 |
| Student Services | 38,362,626 |
| Institutional Support | 14,800,741 |
| Physical Plant | 29,330,008 |
| Scholarships & Fellowships | 19,107,963 |
| Auxiliary Services | 33,378,197 |
| Public Service | 32,097,097 |
| Research | 90,173,618 |
| Depreciation & Amortization | 25,787,635 |
| Total | <u><u>\$ 407,629,312</u></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, 2019, amounted to \$2.1 million.

Notes to Financial Statements

Future minimum lease payments at June 30, 2019:

| <u>Fiscal Year</u> | <u>Future Minimum Lease Payments</u> |
|--------------------|--|
| 2020 | \$ 1,932,240 |
| 2021 | 1,698,921 |
| 2022 | 1,468,715 |
| 2023 | 1,293,595 |
| 2024 | 267,375 |
| 2025 - 2029 | 500,750 |
| Total | <u>\$ 7,161,596</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, the institutions of the System are party to various legal actions. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the System. Therefore, an estimated liability has not been recorded.

Roers Construction, Inc. v. NDSU – In July 2017, Roers Construction submitted a claim to NDSU demanding in excess of \$1.3 million related to the A. Glenn Hill Building. The work was substantially complete on the building as of December 31, 2015. The parties reached a settlement in November 2019, and the settlement will be considered by the SBHE on December 3, 2019 for final approval. If approved by the SBHE, the terms of the settlement agreement will become public information. The amount owed by NDSU pursuant to the settlement does not have a material effect on the System's financial condition or results of operation.

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.

Notes to Financial Statements

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.

Additional information regarding coverage can be found at <https://www.nd.gov/omb/agency/risk-management-services>.

NORTH DAKOTA FIRE AND TORNADO AND STATE BONDING FUND

The System also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The 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 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.

Additional information regarding coverage can be found at <https://www.nd.gov/omb/agency/risk-management-services>

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, 2019 is \$103,722.

Note 23 – Subsequent Events

As discussed in footnote 20, NDSU has reached a settlement in a lawsuit related to the A. Glenn Hill Building, pending approval by the SBHE.

Supplementary Information – Component Units

North Dakota State University Supplementary Information - Component Units Statement of Financial Position For Year Ended June 30, 2019

FASB BASIS

| | <u>Major Component Units</u> | |
|---|--|--|
| | NDSU | NDSU Research & Technology Park |
| | Foundation and Alumni Association | Park |
| | December 31, 2018 | June 30, 2019 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9,463,185 | \$ 2,555,734 |
| Short-term investments | 10,611,015 | |
| Accounts receivable, net | 881,725 | 200,391 |
| Unconditional promises to give, net | 9,594,249 | |
| Current Portion of net investment in direct financing leases | | 1,166,959 |
| Other assets | 229,526 | 2,600 |
| Total Current Assets | \$ 30,779,700 | \$ 3,925,684 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | \$ 567,268 | |
| Investments, net of current portion | 241,399,702 | |
| Charitable remainder trust account investments, net of accumulated depreciation | 31,615,969 | |
| Contracts for deed and notes receivable | 775,488 | |
| Long term pledges receivable | 24,624,804 | |
| Notes Receivable, net | | \$ 6,800,000 |
| Net investment in direct financing leases, net of current portion | | 12,548,962 |
| Other noncurrent assets | 972,076 | 383,010 |
| Capital assets, net | 3,179,941 | 5,938,357 |
| Total Noncurrent Assets | \$ 303,135,248 | \$ 25,670,329 |
| Total Assets | \$ 333,914,948 | \$ 29,596,013 |

Statement of Financial Position - Continued on Next Page

Supplementary Information – Component Units

Statement of Financial Position - Continued

| FASB BASIS | Major Component Units | |
|--|--|--|
| | NDSU Development Foundation December 31, 2018 | NDSU Research & Technology Park June 30, 2019 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 1,202,263 | \$ 188,785 |
| Accrued payroll | | 20,830 |
| Current portion of gifts annuities and life income agreements | 806,982 | |
| Deferred revenue | 17,404 | 20,000 |
| Other current liabilities | 289,004 | |
| Long-term liabilities—current portion | 1,071,742 | 1,370,206 |
| Total Current Liabilities | \$ 3,387,395 | \$ 1,599,821 |
| Noncurrent Liabilities | | |
| Long-term portion of split-interest agreeer | 5,765,744 | |
| Other noncurrent liabilities | | 163,333 |
| Long-term liabilities | 20,442,413 | 20,568,396 |
| Total Noncurrent Liabilities | \$ 26,208,157 | \$ 20,731,729 |
| Total Liabilities | \$ 29,595,552 | \$ 22,331,550 |
| NET POSITION | | |
| With donor restriction | \$ 30,207,031 | |
| Without donor restriction | 274,112,365 | 7,264,463 |
| Total Net Position | \$ 304,319,396 | \$ 7,264,463 |

Supplementary Information – Component Units

North Dakota State University Supplementary Information - Component Units Statement of Activities For Year Ended June 30, 2019

FASB BASIS

| | Major Component Units | |
|---|-----------------------------------|---------------------------------|
| | NDSU | |
| | Foundation and Alumni Association | NDSU Research & Technology Park |
| | December 31, 2018 | June 30, 2019 |
| Support and revenue | | |
| Gifts and contributions | \$ 40,512,466 | \$ 200,895 |
| Investment Income | 14,286,397 | 725,297 |
| Net realized and unrealized gains (losses) on investments | (16,528,866) | |
| Program and event income | | 100,250 |
| Other Income | 1,479,325 | 909,177 |
| Total support and revenue | \$ 39,749,322 | \$ 1,935,619 |
| Expenses | | |
| Program Services | \$ 14,502,067 | \$ 1,386,692 |
| Supporting Services | 6,321,515 | 342,964 |
| Fund raising expense | 3,001,280 | 18,252 |
| Total expenses | \$ 23,824,862 | \$ 1,747,908 |
| Change in Net Assets | \$ 15,924,460 | \$ 187,711 |
| Net Position, Beginning of Year | \$ 288,394,936 | \$ 6,926,901 |
| Net Position, End of Year | \$ 304,319,396 | \$ 7,114,612 |