

NDSU

NORTH DAKOTA STATE UNIVERSITY

Annual Financial Report
June 30, 2020

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North Dakota State University

Management's Discussion and Analysis

JUNE 30, 2020

North Dakota State University's discussion and analysis provides an overview of its financial activities for the year ending June 30, 2020. 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. 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 unaudited.

Background Information

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

Mission

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

Vision

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

Financial Highlights

NDSU's overall financial standing continues to be sound with total assets of \$713 million and total liabilities of \$234 million, and a net position total of \$478 million. The net position is nearly identical to the previous fiscal year. The University has done well in managing its financial resources during difficult times.

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 NDSU'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 NDSU 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 NDSU.

Management's Discussion and Analysis

Statement of Net Position

The following table shows a condensed Statement of Net Position at June 30, 2020 and 2019:

	2020	2019	Dollar Change	Percent Change
ASSETS				
Current assets	\$ 111,765,238	\$ 132,025,796	\$ (20,260,558)	-15%
Other non-current assets	82,321,234	69,904,602	12,416,632	18%
Capital assets, net	518,888,952	520,104,547	(1,215,595)	0%
Total assets	<u>\$ 712,975,424</u>	<u>\$ 722,034,945</u>	<u>\$ (9,059,521)</u>	<u>-1%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 18,914,966</u>	<u>\$ 24,476,108</u>	<u>\$ (5,561,142)</u>	<u>-23%</u>
LIABILITIES				
Current liabilities	\$ 45,956,383	\$ 50,874,229	\$ (4,917,846)	-10%
Noncurrent liabilities	187,729,801	212,868,554	(25,138,753)	-12%
Total liabilities	<u>\$ 233,686,184</u>	<u>\$ 263,742,783</u>	<u>\$ (30,056,599)</u>	<u>-11%</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 20,695,397</u>	<u>\$ 5,174,803</u>	<u>\$ 15,520,594</u>	<u>300%</u>
NET POSITION				
Invested in capital assets, net	\$ 378,789,641	\$ 374,282,395	\$ 4,507,246	1%
Restricted	16,821,196	19,978,724	(3,157,528)	-16%
Unrestricted	81,897,972	83,332,348	(1,434,376)	-2%
Total net position	<u>\$ 477,508,809</u>	<u>\$ 477,593,467</u>	<u>\$ (84,658)</u>	<u>0%</u>
Current Ratio (current assets to current liabilities)	<u>2.43</u>	<u>2.60</u>		
Primary Reserve Ratio (expendable net assets to operating expenses)	<u>0.24</u>	<u>0.25</u>		

The decrease in current assets and increase non-current assets in fiscal 2020 is primarily due to the shifting of investments from current to long-term, with little change to the total assets.

The decrease in current liabilities is due to higher than normal June 2019 construction billings paid in July 2019. These liabilities returned to a more normal level at the end of fiscal 2020. Noncurrent liabilities decreased primarily because of an \$18 million reduction in NDSU's share of the state's pension liability. Accounting principles require the state's pension liability to be allocated and booked to each participating entity.

In fiscal 2020 only \$185,000 of long-term debt was incurred to acquire capital assets. No new long-term debt was issued to acquire capital assets in fiscal 2019.

The restricted net position account reflects a decrease in fiscal 2020 primarily because of NDSU's withdrawal from the federal Perkins loan program,

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, 2020 and 2019:

	2020	2019	Dollar Change	Percent Change
Revenues				
Student tuition and fees	\$ 115,717,389	\$ 118,209,698	\$ (2,492,309)	-2%
Grants, contracts, (operating and nonoperating)	80,393,231	77,260,246	3,132,985	4%
State appropriations (operating and nonoperating)	120,395,204	117,953,770	2,441,434	2%
Sales and services of educational departments	33,758,906	35,448,034	(1,689,128)	-5%
Auxiliary enterprises	38,883,018	40,934,016	(2,050,998)	-5%
Gifts	24,213,901	31,628,825	(7,414,924)	-23%
Other, (operating and nonoperating)	7,021,689	5,629,431	1,392,258	25%
Total revenues	\$ 420,383,338	\$ 427,064,020	\$ (6,680,682)	-2%
Expenses				
Salaries and wages	\$ 281,301,507	\$ 275,004,047	\$ 6,297,460	2%
Operating expenses	94,614,909	99,772,050	(5,157,141)	-5%
Depreciation expense	26,345,039	25,787,635	557,404	2%
Scholarships and fellowships	8,203,985	7,065,578	1,138,407	16%
Other, (operating and nonoperating)	10,002,559	4,351,166	5,651,393	130%
Total expenses	\$ 420,467,999	\$ 411,980,476	\$ 8,487,523	2%
Increase (decrease) in net position	\$ (84,661)	\$ 15,083,544	\$ (15,168,205)	-101%
Net Position, Beginning of Year, as restated	\$ 477,593,470	\$ 462,509,923	\$ 15,083,547	3%
Net Position, End of Year	\$ 477,508,809	\$ 477,593,467	\$ (84,658)	0%

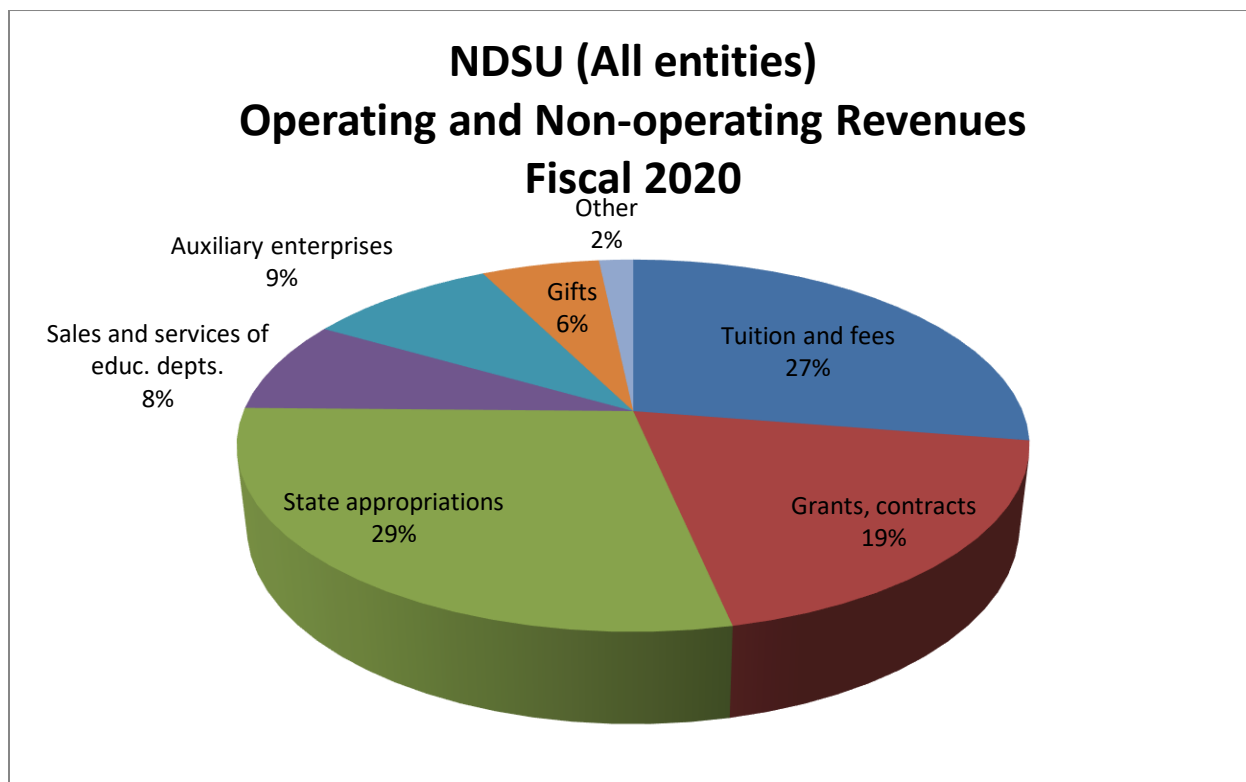
Overall, revenues decreased 2% and expenses increased 2% from 2019 to 2020. There was a slight overall decrease in net position of \$84,661, or 0.018% of the total net position.

The largest line item decrease is the 23% decrease in gifts revenue. This is primarily because fewer drawdowns were needed to finance a major capital project during fiscal 2020 - the Aldevron Tower (Sudro Hall Addition) – from gifts raised by the NDSU Foundation.

Slight decreases in student tuition and fees, along with sales and services of auxiliary enterprise revenues and educational departments is primarily due to the decrease in student enrollment. The other revenues and expenses line item increased significantly in fiscal 2020, although it's still a small component of the totals. The most significant activity in those accounts are the \$3.8 million Cares Act payments to students and the \$1.4 million of federal Perkins loan funds returned to the US government because of the closure of that program.

Graphs

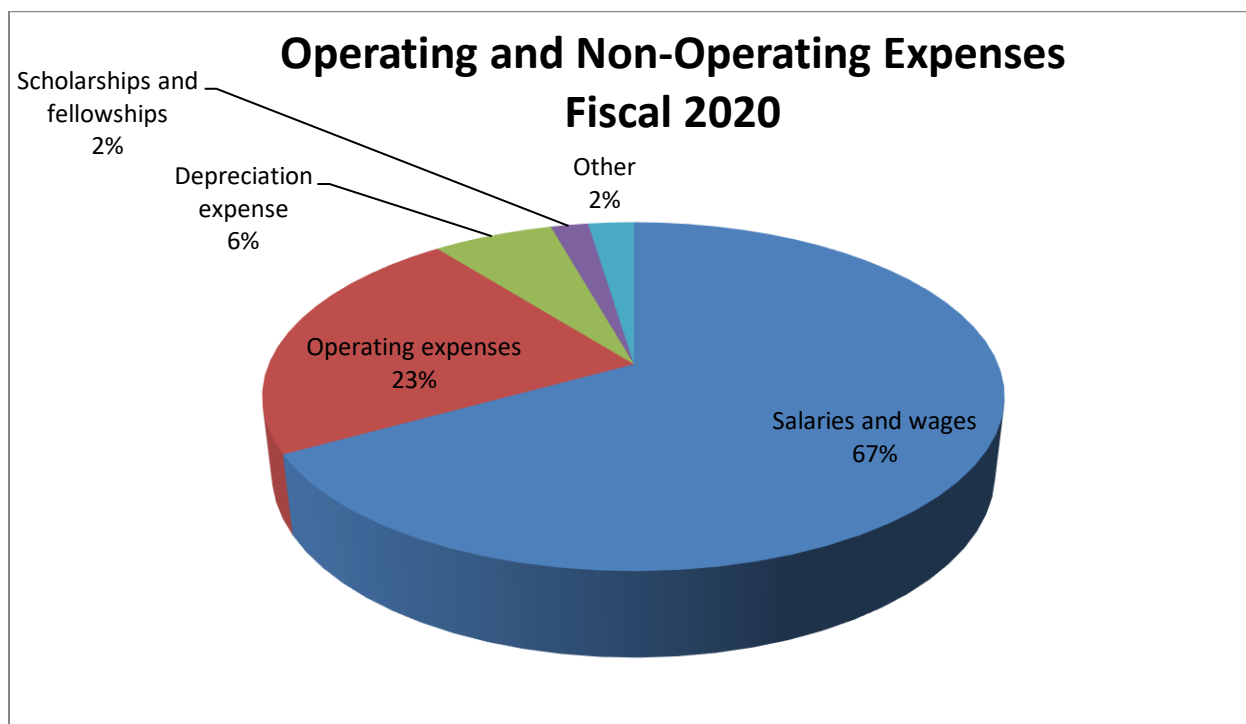
The following graph depicts sources of operating and non-operating revenues for fiscal year 2020:



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

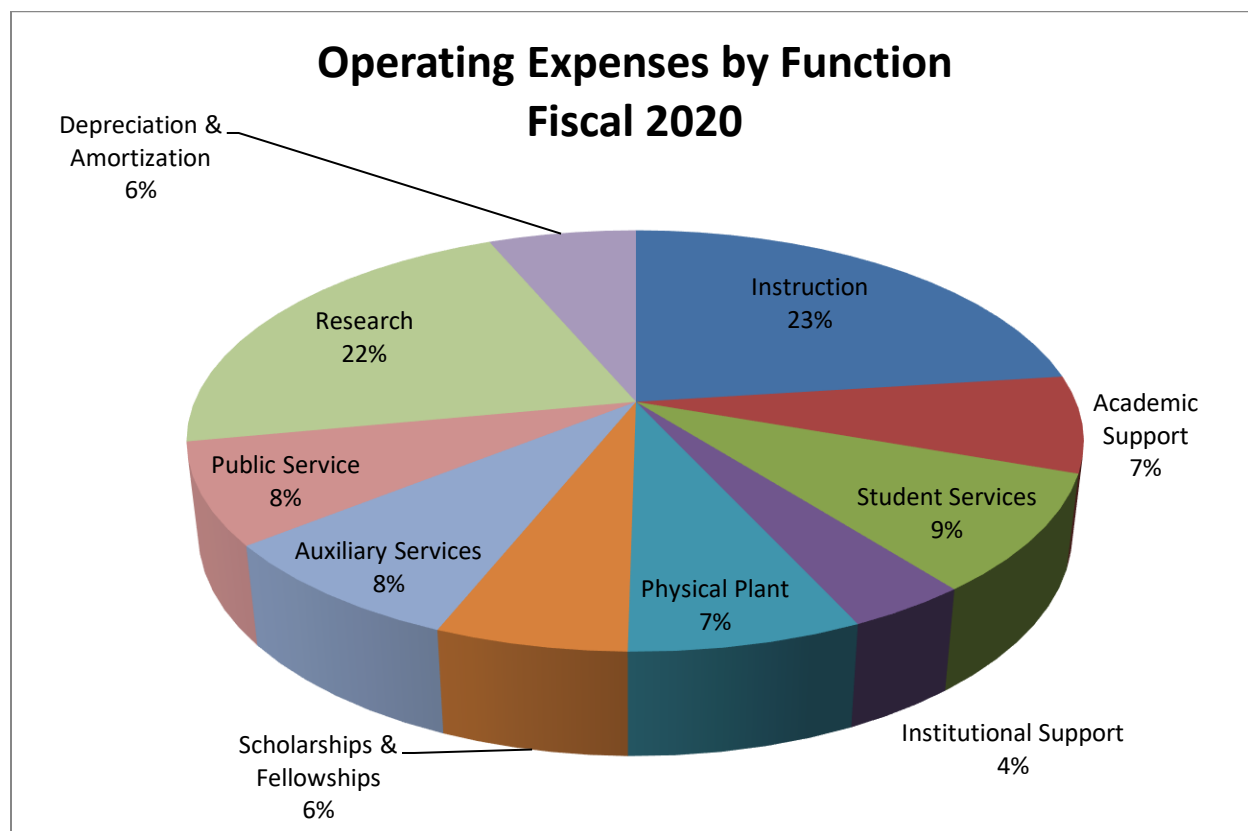
The following graph depicts objects of operating and non-operating expenses, by natural classification, for fiscal year 2020:



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 2020:



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

Financial Ratios

	2020	2019
Current Ratio (current assets to current liabilities)	2.43	2.60
Primary Ratio (expendable net position to operating expense)	0.24	0.25
Viability Ratio (expendable net position to long-term debt)	0.61	0.61
Higher Learning Commission's Composite Financial Index (CFI):		
1. CFI, including CU's and including GASB 68 & 75	4.09	2.43
2. CFI, excluding CU's and including GASB 68 & 75	0.94	1.46
3. CFI including CU's and excluding GASB 68 & 75	4.60	3.03
4. CFI excluding CU's and excluding GASB 68 & 75	1.56	2.12

(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 without any revenues. The University's primary reserve ratio at June 30, 2020, is 0.24, 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 2020.

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 uses its Composite Financial Index (CFI) to gauge the overall financial condition of a university. The CFI is a weighted index of various financial ratios. A CFI less than 1.0 for two consecutive years is a flag to the HLC that an institution will need a special review to gain or retain its accreditation. NDSU's CFI is

Management's Discussion and Analysis

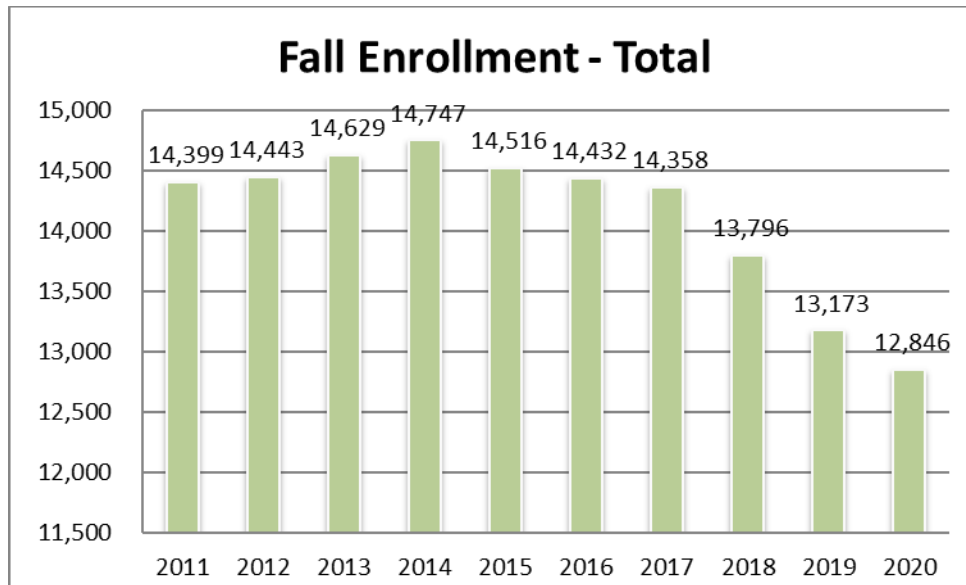
well above the 1.0 benchmark at 4.09 for fiscal 2020, which is well over the level set by the HLC requiring a review.

The most significant factor in the increase from fiscal 2019 is from the financial activity of the NDSU Foundation. Unrealized investment gains were recognized in the Foundation's financial activity during the Foundation's fiscal year ended December 31, 2018. In addition, gift revenue doubled at the Foundation in fiscal 2020, compared to 2019. Without the Component Units (Affiliated Foundations) the university CFI actually decreased slightly in fiscal 2020.

Other Highlights

Student Enrollment

NDSU's fall headcount student enrollment has been trending downward since 2014. This reflects a competitive environment with national downward trends in college and university enrollment. NDSU's fall headcount enrollment for fall 2020 was 12,846 students, which represents about 30% of the student enrollment for the entire ND University system. NDSU's fall headcount enrollment for the last ten 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.ripplinger@ndsu.edu, or Travis Aho, at Travis.aho.1@ndsu.edu.

Basic Financial Statements

North Dakota State University Statement of Net Position For Years Ended June 30, 2020 & 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 48,332,055	\$ 53,493,368
Short-term investments	24,000,001	40,000,098
Accounts receivable, net	6,232,148	6,326,510
Due from other NDUS institutions	86,465	1,023,291
Due from component units	7,302,299	6,092,647
Due from State General Fund	7,723,755	8,525,296
Grants & contracts receivable, net	14,444,763	13,190,399
Inventories	1,413,318	1,549,373
Notes receivable, net	1,053,790	1,310,042
Other assets	1,176,644	514,772
Total Current Assets	\$ 111,765,238	\$ 132,025,796
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 1,954,301	\$ 1,963,290
Restricted investments	1,901	5,420,306
Endowment investments	459,111	459,111
Notes receivable, net	3,662,765	4,700,548
Other long-term investments	75,998,704	56,918,352
Due from Component Units	47,412	52,798
Other noncurrent assets	197,040	390,197
Capital assets, net	518,888,952	520,104,547
Total Noncurrent Assets	\$ 601,210,186	\$ 590,009,149
Total Assets	\$ 712,975,424	\$ 722,034,945
DEFERRED OUTFLOWS OF RESOURCES		
	\$ 18,914,966	\$ 24,476,108
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 8,732,658	\$ 17,393,582
Due from other institutions	1,012,187	671,043
Accrued payroll	15,420,910	12,292,924
Unearned revenue	9,231,305	9,485,214
Deposits	1,902,875	1,474,743
Long-term liabilities—current portion:		
Payable to component units	2,276,384	2,427,563
Payable to others	7,380,064	7,129,160
Total Current Liabilities	\$ 45,956,383	\$ 50,874,229
Noncurrent Liabilities		
Pension Liability	\$ 34,819,350	\$ 52,649,808
OPEB Liability	2,243,951	2,328,558
Payable to others		
Long-term liabilities:		
Payable to component units	22,945,000	25,221,384
Payable to others	127,721,500	132,668,804
Total Noncurrent Liabilities	\$ 187,729,801	\$ 212,868,554
Total Liabilities	\$ 233,686,184	\$ 263,742,783
DEFERRED INFLOWS OF RESOURCES		
	\$ 20,695,397	\$ 5,174,803

Statement of Net Position - Continued on Next Page

Basic Financial Statements

Statement of Net Position - Continued

	<u>2020</u>	<u>2019</u>
NET POSITION		
Invested in Capital Assets, net of related debt	\$ 378,789,641	\$ 374,282,395
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	508,595	513,982
Expendable:		
Scholarships and fellowships	625,503	975,867
Research	6,550,180	7,705,303
Instructional department uses	805,809	872,959
Loans	6,253,079	7,682,391
Capital projects	73,132	69,230
Debt service	2,004,898	2,158,992
Unrestricted	81,897,972	83,332,348
Total Net Position	<u><u>\$ 477,508,809</u></u>	<u><u>\$ 477,593,467</u></u>

Basic Financial Statements

North Dakota State University Statement of Revenues, Expenses, & Other Changes in Net Position For Years Ended June 30, 2020 & 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
Operating Revenues:		
Student tuition and fees	\$ 115,717,389	\$ 118,209,698
Federal Grants and Contracts	37,729,772	41,412,174
State Grants and Contracts	8,957,843	8,270,257
Private Grants & Contracts	8,718,683	11,493,520
Sales and services of educational departments	33,758,906	35,448,034
Auxiliary enterprises	38,883,018	40,934,016
Other Operating Revenue	630,084	348,835
Total operating revenues	\$ 244,395,695	\$ 256,116,534
EXPENSES		
Operating expenses:		
Salaries and wages	\$ 281,301,507	\$ 275,004,047
Operating expenses	82,324,556	88,241,976
Data Processing	4,676,284	4,823,385
Depreciation Expense	26,345,039	25,787,635
Scholarships and fellowships	8,203,985	7,065,578
Cares Act Aid to Students	3,802,373	
Cost of Sales and services	7,614,069	6,706,689
Total operating expenses	\$ 414,267,813	\$ 407,629,310
Operating income (loss)	\$ (169,872,118)	\$ (151,512,776)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 115,671,036	\$ 115,371,328
Federal Appropriations	5,746,159	5,029,495
Federal grants and contracts	10,655,516	11,269,065
Federal grants and contracts stimulus	7,612,288	
Gifts	16,882,844	14,661,558
Investment income	4,700,002	4,110,410
Interest on capital asset - related debt	(4,440,761)	(3,829,694)
Gain/(Loss) on capital assets	(124,626)	(235,682)
Insurance Proceeds	405,700	503,763
Transfer to Industrial Commission	785,903	500,000
Tax Revenues	500,000	(285,790)
Other nonoperating revenues over (under) expenses	(1,634,799)	166,423
Net nonoperating revenues	\$ 156,759,262	\$ 147,260,876
Income (loss) before capital grants, gifts and transfers	\$ (13,112,856)	\$ (4,251,900)
State appropriations - capital assets	\$ 4,724,168	\$ 2,582,442
Capital grants and gifts	8,304,027	16,753,002
Total other revenues (expenses)	\$ 13,028,195	\$ 19,335,444
Increase (decrease) in net position	\$ (84,661)	\$ 15,083,544
NET POSITION		
Net Position - beginning of year,	\$ 477,593,470	\$ 462,509,923
Net Position - end of year	\$ 477,508,809	\$ 477,593,467

Basic Financial Statements

North Dakota State University Statement of Cash Flows For Years Ended June 30, 2020 & 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 116,493,711	\$ 117,497,476
Grants and Contracts	53,976,595	63,087,094
Payments to suppliers	(97,158,810)	(97,006,532)
Payments to employees	(274,279,854)	(269,870,484)
Payments for scholarships and fellowships	(8,203,985)	(7,065,579)
Payments for Cares Act Funds to Students	(3,802,374)	
Loans issued to students	(5,913)	(66,635)
Collection of loans to students	1,312,712	1,225,898
Auxiliary enterprise charges	38,727,721	41,093,887
Sales and services of educational departments	34,471,724	35,705,099
Cash received (paid) on deposits	(8,814)	(63,744)
Other receipts (payments)	(951,615)	436,709
Net cash provided (used) by operating activities	<u>\$ (139,428,902)</u>	<u>\$ (115,026,811)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	\$ 115,714,939	\$ 115,297,523
Federal appropriations	5,746,160	5,029,495
Grants and gifts received for other than capital purposes	25,317,106	25,420,509
Federal stimulus revenues	7,612,288	
Direct Lending Receipts	50,850,794	53,609,850
Direct Lending Disbursements	(50,850,794)	(53,609,850)
Agency fund cash increase (decrease)	699,365	(954,992)
Transfers to Industrial Commission	785,903	(285,791)
Tax revenues	500,000	500,000
Net cash provided/(used) by financing activities	<u>\$ 156,375,761</u>	<u>\$ 145,006,744</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of debt	\$ -	\$ -
Capital appropriations	5,481,806	1,037,773
Capital grants and gifts received	9,100,648	11,619,472
Purchases of capital assets	(30,624,373)	(55,647,074)
Insurance proceeds	405,701	503,764
Principal paid on capital debt and lease	(8,768,838)	(7,014,662)
Deposits with capital debt and lease	-	-
Interest paid on capital debt and lease	(4,599,711)	(3,974,303)
Net cash provided/(used) by capital and related financing activities	<u>\$ (29,004,767)</u>	<u>\$ (53,475,030)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 43,462,955	\$ 40,983,413
Interest on Investments	4,424,651	3,668,516
Purchases of investments	(41,000,000)	(20,887,878)
Net cash provided/(used) by investing activities	<u>\$ 6,887,606</u>	<u>\$ 23,764,051</u>
Net increase (decrease) in cash	<u>\$ (5,170,302)</u>	<u>\$ 268,954</u>
Cash - Beginning of year	<u>\$ 55,456,658</u>	<u>\$ 55,187,704</u>
Cash - End of year	<u>\$ 50,286,356</u>	<u>\$ 55,456,658</u>

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>2020</u>	<u>2019</u>
Operating Income (loss)	\$ (169,872,118)	\$ (151,512,776)
Adjustments:		
Depreciation	26,345,039	25,787,635
Other nonoperating revenues (expenses)	(1,112,984)	89,357
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	1,336,670	(1,107,443)
Intergovernmental receivables	(1,472,474)	1,990,038
Inventories	136,056	(186,803)
Notes receivable	1,294,035	1,169,984
Other assets	(468,715)	(1,481)
Accounts payable and accrued liabilities adjusted for interest payable	(2,634,222)	3,044,732
Pension Liability	(17,830,458)	1,566,282
OPEB Liability	(84,607)	(75,559)
Net change in deferred outflows	5,404,547	2,816,422
Net change in deferred inflows	15,520,774	1,282,831
Accrued payroll	2,943,221	(134,763)
Compensated absences	1,110,947	(400,546)
Deferred revenue	(35,799)	709,023
Deposits	(8,814)	(63,744)
Net cash provided (used) by operating activities	<u><u>\$ (139,428,902)</u></u>	<u><u>\$ (115,026,811)</u></u>

SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS

Assets acquired through capital lease	\$ 185,000	\$ -
Expenses paid by capital lease	616,683	-
Gifts of capital assets	42,500	-
Net Increase (Decrease) in value of investments	112,966	52,506
Total non cash transactions	<u><u>\$ 957,149</u></u>	<u><u>\$ 52,506</u></u>

Notes to Financial Statements

JUNE 30, 2020

Note 1 – Summary of Significant Accounting Policies

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

REPORTING ENTITY

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

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

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

Notes to Financial Statements

Component Units

The process of evaluating potential component units involves the application of criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. In accordance with GASB Statement No. 14, a financial reporting entity consists of the primary institution, organizations for which the primary institution is financially accountable and other organizations for which the nature and significance of their relationship with the primary institution are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the criteria of financial accountability. The primary institution is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary institution. GASB issued Statement No. 39, Determining Whether Certain Organizations Are Component Units, modifies and clarifies existing criteria of determining whether an organization should be reported as a component unit and how that component unit should be reported in the financial statements. The nature and significance of the organization's relationship and the extent of financial integration with the primary institution are now considered when determining potential component units. GASB Statement No. 61 amends the requirements established by GASB statement No. 14 and GASB statement No. 39 for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires a financial benefit or burden relationship in addition to a fiscal dependency.

As required by generally accepted accounting principles, the accompanying financial statements present NDSU and its component units. The component units are included in the NDSU's reporting entity because of the significance of their operational or financial relationships with NDSU.

The component units' financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain amounts reported on NDSU's financial statements (receivables from and payables to component units) are not reflected on the component units' financial statements. Certain other amounts have been reclassified for consistent presentation.

Blended Component Units

A component unit whose governing body is substantively the same as the governing body of the primary institution, a financial benefit/burden relationship exists and the entity provides services entirely or almost entirely to the primary institution or otherwise exclusively or almost exclusively benefits the primary institution even though it does not provide services directly to it, is included in the primary institutions financial statements using the blending method.

NDSU has no blended component units.

Discretely Presented Component Units

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to NDSU, exclusion would render the financial statements incomplete or misleading. Although the institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon, which the

Notes to Financial Statements

entities hold and invest is restricted to the activities of the institution or its constituents by the donors. Therefore, these entities are discretely presented in the financial statements using FASB standards, including Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the financial report for these differences.

Component units that are significant relative to the other component units and to the institution are considered "major" component units and are displayed in separate columns in the component unit section of the financial statements. In this financial report, the major component units are included as supplementary information. Component units that are not significant relative to the other component units and to the institution are considered non-major component units and are displayed in a separate column in the component unit section of the financial statements. Note disclosures are not provided for "non-major" component units. NDSU has no non-major component units.

Major Component Units

NDSU Foundation (NDSU Foundation) is a legally separate non-profit corporation established to raise, manage, distribute, and steward private resources to support the various priorities of NDSU. The NDSU Foundation engages in development and outreach activities on behalf of NDSU. The NDSU 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 NDSU Foundation's fiscal year-end is December 31. Financial statements and footnote disclosures are presented as of December 31, 2019. Financial statements may be obtained at their administrative office at 1241 N. University Drive, Fargo, ND 58102.

NDSU Research & Technology Park, Inc., (NDSU RTP) 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, staff, 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 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 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 organization 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, manages the TCU. All property, funds and income of the organization 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, 2020, the TCU had net position of approximately \$724,000 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Financial statements for the TCU may be obtained at their administrative office at NDSU, 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, 2020 were:

NDSU Research Foundation

NDSU Team Makers, Inc.

Alliance for Arts & Humanities

NDSU 4H Foundation

BASIS OF PRESENTATION

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

Notes to Financial Statements

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.

OTHER POST-EMPLOYMENT BENEFITS

Notes to Financial Statements

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SCHOLARSHIP ALLOWANCES

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

NET Position

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

Restatement of Beginning Net Position

	Primary Institution
Fiscal 2020	
Net Position, Beginning of the year, as previously reported	\$ 477,593,467
Rounding issue between 2019 & 2020 audit reports	\$ 3
Net Position, Beginning of the year, as previously reported	<u><u>\$ 477,593,470</u></u>

USE OF ESTIMATES

Notes to Financial Statements

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

New Accounting Pronouncements

Accounting Standards Implemented

In March 2020, the GASB issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance". The statement was effective immediately and deferred the implementation for one year and a half for Statement No. 87, "Leases" due to the Covid-19 pandemic. The statement deferred the implementation for one year the following standards due to the Covid-19 pandemic:

- Statement No. 84, "Fiduciary Activities"
- Statement No. 87, "Leases"
- Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period"
- Statement No. 90, "Majority Equity Interests"
- Statement No. 91, "Conduit Debt Obligations"
- Statement No. 92, "Omnibus 2020"
- Statement No. 93, "Replacement of Interbank Offered Rates"

Accounting Standards Issued but Not Yet Implemented

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities." The statement was effective for reporting periods beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87, "Leases." The statement is effective for reporting periods beginning after June 15, 2021.

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, 2020.

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, 2019.

In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". The statement is effective for periods beginning after December 15, 2021.

In January 2020, the GASB issued Statement No. 92, "Omnibus 2020". The statement is effective for periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, "Replacement of Interbank Offered Rates". The statement contains staggered implementation dates for periods beginning after June 15, 2020, December 31, 2021 and June 15, 2021.

Notes to Financial Statements

In May 2020, the GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". The statement is effective for periods beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements". The statement is effective for periods beginning after June 15, 2022.

In June 2020, the GASB issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession GASB Statement No. 32". The statement is effective for periods beginning after June 15, 2021.

Management is in the process of evaluating whether these GASB statements will be applicable to NDSU and the impact they may have on the NDSU financial statements.

Note 2 – Deposits & Investments

LIMITATIONS

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

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

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

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

Notes to Financial Statements

DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Position for June 30, 2020 as follows:

Deposits	Carrying Amount	Bank Balance	Uninsured Bank Balance (A)	(B)	(C)
Total Cash Deposits at BND	\$ 37,741,019	\$ 51,473,363	\$ 51,473,363		
CDs at BND	93,000,000	93,000,000	93,000,000		
Total Cash Deposits at Other	12,474,247	11,258,072		10,875,118	
CDs at Other					
Total Deposits	\$143,215,266	\$155,731,435	\$144,473,363	\$10,875,118	-
Cash on Hand/Petty Cash	71,090				
Less amts reported as investments	(93,000,000)				
Cash & Cash Equ-SNA	<u>\$ 50,286,356</u>				

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the NDUS' 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, 2020, \$552.3 million of the System's bank balance of \$556.5 million was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$539.0 million

Uninsured and collateral held by pledging bank not in system's name \$ 13.3 million

Investments

Notes to Financial Statements

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2020, as shown below:

Account	Market Value	Maturities from June 30			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
Debt Securities:					
US Treasuries	\$ -	\$ -	\$ -	\$ -	
Mutual Bond Funds	148,638				\$ 148,638
Money market mutual funds	1,902				1,902
Total Securities w/ Maturities	\$ 150,540	\$ -	\$ -	\$ -	\$ 150,540
Other Invest Types:					
Stocks	\$ 395,089				
Exchange Traded Funds	719,062				
Equity Mutual Funds	23,364				
BND Cd's Credit risked as investments but reported as deposits	93,000,000				
Investment in Real Estate	6,171,662				
Total reported on SNA	\$ 100,459,717				

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, 2020, 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	\$ 148,638		\$ 148,638
Money market mutual funds	1,902	\$ 1,902	
Total	\$ 150,540	\$ 1,902	\$ 148,638

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, 2020 are:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Equity Securities	\$ 395,089			\$ 395,089
Exchange Traded Funds	719,062			\$ 719,062
Equity Mutual Funds	23,364			\$ 23,364
Real Estate			\$ 6,171,662	\$ 6,171,662
Total	<u>\$ 1,137,515</u>	<u>\$ -</u>	<u>\$ 6,171,662</u>	<u>\$ 7,309,177</u>

Notes to Financial Statements

Note 3 – Receivables

Receivables at June 30, 2020 consist of the following amounts:

	Current	NonCurrent	Total
Student & General	\$ 9,213,895		\$ 9,213,895
Interest Receivable	423,141		423,141
Allowance for doubtful Accts	(3,404,888)		(3,404,888)
Total Accounts Receivable, Net	<u>\$ 6,232,148</u>		<u>\$ 6,232,148</u>
Grants & Contracts Receivable	\$ 9,922,119		\$ 9,922,119
Due from Other State Agencies	4,522,644		4,522,644
Total Grants & Contracts Receivable, Net	<u>\$ 14,444,763</u>		<u>\$ 14,444,763</u>
Student	\$ 1,191,913	\$ 4,143,145	\$ 5,335,058
Allowance for Doubtful Notes	(138,124)	(480,380)	(618,504)
Total Notes Receivable, Net	<u>\$ 1,053,789</u>	<u>\$ 3,662,765</u>	<u>\$ 4,716,554</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, 2020 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 10,552,252				\$ 10,552,252
Construction in Progress	60,505,025	\$ 11,669,918		\$ (41,651,606)	30,523,337
Total non-depreciable capital assets	\$ 71,057,277	\$ 11,669,918	\$ -	\$ (41,651,606)	\$ 41,075,589
Land Improvements/infrastructure	\$ 63,830,652	\$ 3,141,513			\$ 66,972,165
Buildings	589,763,535	3,810,804		\$ 41,651,606	635,225,945
Furniture, fixtures, and equipment	152,654,412	7,096,224	\$ 2,529,351		157,221,285
Intangibles:					
Computer Software	1,098,998				1,098,998
Other	642,410				642,410
Library Materials	16,309,496	135,694	149,617		16,295,573
Total Depreciable Capital Assets	\$ 824,299,503	\$ 14,184,235	\$ 2,678,968	\$ 41,651,606	\$ 877,456,376
Less accumulated depreciation and amortization					
Land Improvements/infrastructure	\$ 38,039,668	\$ 1,365,991			\$ 39,405,659
Buildings	218,373,286	16,175,495	\$ -		234,548,781
Furniture, fixtures, and equipment	102,545,659	8,314,881	1,804,642		109,055,898
Intangibles:					
Computer Software	911,968	68,633			980,601
Other	295,757	32,120			327,877
Library Materials	15,085,895	387,919	149,617		15,324,197
Total Accumulated depreciation and amortization	\$ 375,252,234	\$ 26,345,039	\$ 1,954,259	\$ -	\$ 399,643,013
Total Depreciable Capital Assets, net	\$ 449,047,270	\$ (12,160,804)	\$ 724,709	\$ 41,651,606	\$ 477,813,363
Capital Assets, net	\$ 520,104,547	\$ (490,886)	\$ 724,709	\$ -	\$ 518,888,952

Construction in progress for the year ended June 30, 2020 was as follows:

Project	Amount Authorized	Expended (CIP Balance)	Expended (non-capitalized to bldgs)	Authorized Balance
<u>Budiling Projects:</u>				
Carrington Seed Cleaning Plant	\$ 2,204,112	\$ 1,237,740	\$ 297,728	\$ 668,644
NCREC Seed Cleaning Plant	2,204,112	847,144	506,468	\$ 850,500
Williston Seed Cleaning Plant	2,250,000	34,540	1,222	\$ 2,214,238
Sudro (Aldevron) Hall Construction	28,000,000	23,185,755		\$ 4,814,245
Sudro (Aldevron) Hall FFE	921,088	921,088		\$ -
Indoor Practice Facility	900,000	834,188		\$ 65,812
Dunbar (Sugihara) Hall Contruction	51,200,000	3,462,882		\$ 47,737,118
Construction in Progress Total	\$ 87,679,312	\$ 30,523,337	\$ 805,418	\$ 56,350,557

Notes to Financial Statements

Note 6 – Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2020:

Accounts Payable	\$ 6,945,975
Due to other state agencies	283,073
Sales Tax Payable	7,928
Accrued Interest	1,071,021
Contractor Payable/Retainage	424,661
Total Payables & Accrued Liabilities	<u>\$ 8,732,658</u>

Note 7 – Long-Term Liabilities

The changes in long-term liabilities during fiscal year 2020 are as shown below:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Non-Current Portion
Bonds Payable	\$ 118,004,634	\$ -	\$ 5,097,753	\$ 112,906,881	\$ 5,272,753	\$ 107,634,128
Due to CU - Bonds Payable	14,720,000		1,350,000	13,370,000	1,370,000	12,000,000
Capital Leases	4,735,372	185,000	680,134	4,240,238	753,590	3,486,648
Due to CU - Capital Leases	12,928,947		1,077,563	11,851,384	906,384	10,945,000
Special Assessments	3,573,979	616,684	831,142	3,359,521	133,584	3,225,937
Compensated Absences	13,483,979	1,110,945		14,594,924	1,220,137	13,374,787
Total	<u>\$ 167,446,911</u>	<u>\$ 1,912,629</u>	<u>\$ 9,036,592</u>	<u>\$ 160,322,948</u>	<u>\$ 9,656,448</u>	<u>\$ 150,666,500</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, 2020 is presented below and the detail is presented in the Supplementary Information section following these notes.

Notes to Financial Statements

<u>Bond Issue</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Bonds Outstanding 6/30/19</u>	<u>New Bonds issued this Fiscal Year</u>	<u>Bond Principal paid this Fiscal Year</u>	<u>Bonds Outstanding 6/30/20</u>
<u>Housing and Auxiliary System Revenue Bonds:</u>							
2012A Refunding (Series 2002 LLC Bonds)	3/1/2012	4/1/2027	\$ 5,730,000	\$ 3,290,000		\$ 380,000	\$ 2,910,000
2014A Refunding (Series 2004 Bison Court)	4/1/2014	4/1/2034	8,340,000	6,710,000		360,000	6,350,000
2015A Refunding (Series 2005, 2006A & B)	2/5/2015	4/1/2036	21,195,000	15,030,000		1,680,000	13,350,000
2015B Aquatic Addition (Series 2004 Bison Court)	6/24/2015	4/1/2035	9,355,000	8,070,000		370,000	7,700,000
2016A Refunding (Series 2007 LLCE/Ceres)	8/2/2016	4/1/2037	10,405,000	9,285,000		405,000	8,880,000
2017A Cater Hall (New Issue)	7/26/2017	4/1/2047	48,770,000	48,770,000		945,000	47,825,000
2017B Refunding (Series 2009 Niskanen/WDC)	7/26/2017	4/1/2039	22,755,000	21,660,000		690,000	20,970,000
Subtotal - NDSU			\$ 126,550,000	\$ 112,815,000	\$ -	\$ 4,830,000	\$ 107,985,000
<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	\$ 14,720,000		\$ 1,350,000	\$ 13,370,000
Subtotal - NDSU Research & Tech Park, Inc.			\$ 18,790,000	\$ 14,720,000	\$ -	\$ 1,350,000	\$ 13,370,000
GRAND TOTAL BONDS PAYABLE			\$ 145,340,000	\$ 127,535,000	\$ -	\$ 6,180,000	\$ 121,355,000

Refunding and Defeased Bonds

The purpose of a refunding bond is to refund in advance of maturity another bond issue. Under an advanced refunding arrangement, refunding bonds are issued, and the net proceeds plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds. As a result, trust account assets and liabilities for the defeased bonds are not included in the University's financial statements. The following is a description of the University's defeased bonds and the balance of the bonds outstanding in the trust.

Scheduled Maturities of Bonds Payable

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 6,642,753	\$ 4,420,555	\$ 11,063,308
2022	6,887,753	4,173,284	11,061,037
2023	6,642,753	3,906,654	10,549,407
2024	6,612,753	3,637,550	10,250,303
2025	5,622,753	3,373,160	8,995,913
2026 - 2030	29,865,296	13,472,464	43,337,760
2031 - 2035	28,710,646	8,452,049	37,162,695
2036 - 2040	17,950,650	4,588,801	22,539,451
2041 - 2045	11,971,677	2,182,250	14,153,927
2046 - 2050	5,369,847	278,775	5,648,622
	<u>\$ 126,276,881</u>	<u>\$ 48,485,542</u>	<u>\$ 174,762,423</u>

Notes to Financial Statements

Note 9 – Notes Payable

The University does not have any outstanding notes payable as of June 30, 2020.

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 fiscal 2037.

A summary of the Capital Lease & Due to Component Unit activity for fiscal 2020 is as follows:

LEASE NUMBER	Lease Start	DESCRIPTION	Terms (in Months)	PRINCIPAL			PRINCIPAL
				BALANCE DUE	PRINCIPAL	PRINCIPAL	BALANCE DUE
	Date			6/30/2019	NEW LEASES	PAID	6/30/2020
Capital Leases							
0573	06/24/12	Bank of America-Energy Savings Performance Contract	168	\$ 4,062,808		\$ 523,044	\$ 3,539,765
0644	08/17/16	Wells Fargo-Athletics Scoreboard/Media System	84	672,563		157,091	515,472
0683	04/01/20	Bank of America - Tractor Case Puma IH 200	155		145,000		145,000
0684	04/01/20	Bank of America - Air Drill Case IH PD500	51		40,000		40,000
				<u>\$ 4,735,372</u>	<u>\$ 185,000</u>	<u>\$ 680,135</u>	<u>\$ 4,240,238</u>
Due to Component Units - Capital Leases							
0465	10/10/05	NDSU Development Fnd-Fargodome-Paid from Gifts @ NC	180	\$ 443,947		\$ 312,563	\$ 131,384
0476	11/29/07	NDSU Development Foundation-Renaissance Hall	303	3,835,000		270,000	3,565,000
0586	11/29/07	US Bank for NDSU Development Foundation-Barry & Klai I	295	8,650,000		495,000	8,155,000
				<u>\$ 12,928,947</u>	<u>\$ -</u>	<u>\$ 1,077,563</u>	<u>\$ 11,851,384</u>
Grand Total				<u>\$ 17,664,319</u>	<u>\$ 185,000</u>	<u>\$ 1,757,698</u>	<u>\$ 16,091,622</u>

Notes to Financial Statements

Scheduled Maturities of Capital Leases & Due to Component Units

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,659,974	\$ 556,825	\$ 2,216,799
2022	1,585,262	502,346	2,087,608
2023	1,467,588	449,542	1,917,130
2024	1,333,359	397,589	1,730,948
2025	1,384,346	352,041	1,736,387
2026 - 2030	4,696,093	1,164,980	5,861,073
2031 - 2035	2,780,000	503,680	3,283,680
2036 - 2040	1,185,000	47,900	1,232,900
	<u>\$ 16,091,622</u>	<u>\$ 3,974,903</u>	<u>\$ 20,066,525</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>
2021	\$ 133,584	\$ 152,733	\$ 286,317
2022	139,767	146,550	286,317
2023	146,239	140,078	286,317
2024	153,015	133,302	286,317
2025	159,703	126,209	285,912
2026 - 2030	853,645	516,226	1,369,871
2031 - 2035	1,014,295	303,129	1,317,424
2036 - 2040	517,563	115,772	633,335
2041 - 2045	241,710	19,096	260,806
	<u>\$ 3,359,521</u>	<u>\$ 1,653,095</u>	<u>\$ 5,012,616</u>

Notes to Financial Statements

Compensated Absences

The compensated absences liability as of June 30, 2018 consists of accumulated unpaid annual leave, compensatory time, payable portion of accumulated sick leave, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for employees at June 30, 2020 and 2019 totaled \$14,594,924 and \$13,483,979, 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, 2020 consist of the following:

Deferred Outflows

Pension & OPEB	\$ 16,642,941
Debt Refunding	2,272,025
	<u>\$ 18,914,966</u>

Deferred Inflows

Pension & OPEB	\$ 20,607,294
Debt Refunding	2,833
Grant amounts received prior to meeting time requirements	85,270
	<u>\$ 20,695,397</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

Notes to Financial Statements

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

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, 2020.

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.

Notes to Financial Statements

Funding Policy

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

Employment Class	Years of Service	Contributions by the Participant	Contributions by the Institution
I 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. NDSU has no further liability once annual contributions are made. NDSU contributed \$16.0 million to TIAA-CREF during the fiscal year ending June 30, 2020.

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, 2020 for additional information.

Note 15 - Construction Commitments and Financing

The institutions have contracted for various construction projects as of June 30, 2020.

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

Project	Contracts Awarded	Expended Through June 30, 2020	Total Cost To Complete	Funding for remaining costs		
				State Sources	Institutional Funds	Other Sources
Main Campus						
Barry Hall	\$ 2,440,930	\$ 463,232	\$ 1,977,698			\$ 1,977,698
Hastings Hall	2,224,218	373,655	1,850,563			1,850,563
Science Hall (Dunbar)	43,900,611	1,343,385	42,557,226	\$ 3,719,187		38,838,039
Sudro Addition	22,262,586	20,972,310	1,290,276			1,290,276
Underground Structure	2,618,032	2,003,116	614,916	204,972	\$ 409,943	
Experiment Station & RE Centers						
Carrington Seed Cleaning Facility	439,200	439,200	-			
North Central Seed Cleaning Facilit	732,634	732,634	-			
Williston Seed Cleaning Facility	1,311,500	28,000	1,283,500	714,239		569,261
Hay Shed	87,754	75,687	12,067			12,067
Oakes Pesticide Facility	151,000	107,304	43,696			43,697
	\$ 76,168,465	\$ 26,538,523	\$ 49,629,942	\$ 4,638,398	\$ 409,943	\$ 44,581,601

Note 16 - Component Unit Transactions

MAJOR COMPONENT UNITS

NDSU Research and Technology Park, Inc. (NDSU RTP)

On December 30, 1999, NDSU through the State of North Dakota and the SBHE entered into a ground lease, whereby the NDSU RTP leases 40 acres of land for \$1 per year for the next seventy-five years.

On July 1, 2002, NDSU and NDSU 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 NDSU RTP entered into renewed agreements, whereby NDSU leases the Research Buildings I and II through June 30, 2032. During fiscal year 2020, total annual rent of \$312,000 was paid by NDSU for these two buildings, in addition to the \$1.8 million of principal and interest paid by NDSU directly to the bond trustee. NDSU reimbursed

Notes to Financial Statements

NDSU 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.

During fiscal year 2020, NDSU and the RTP entered into an agreement where NDSU RTP creates, maintains, and operates makerspace at the Park to help recruit and educate future leaders in the STEM fields. Under the agreement NDSU will pay the RTP \$90,000 per year. During fiscal 2020, the first year of the agreement, NDSU paid the NDSU RTP \$45,000 for this service.

NDSU Foundation (The Foundation)

Fargodome Lease and Improvements

In fiscal year 2006, the Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSUFAA for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2020, the Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$331,587. 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 \$131,000 as of June 30, 2020. Since the foundation is a discretely presented component unit of the System and the component unit and the 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

Notes to Financial Statements

property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the Foundation \$413,000 in fiscal year 2020 for debt service under this agreement. As of June 30, 2020, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$3.6 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 twenty-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 2020, NDSU paid \$158,000 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, 2020, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$8.15 million.

Other Transactions

The Foundation provides meeting space rental and database support service to NDSU for an annually negotiated fee. NDSU paid the foundation \$384,000 for the fiscal year ending December 31, 2019.

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 \$158,432 during the fiscal year ending December 31, 2019.

Based on an agreement that began January 1, 2015, and automatically renewed annually since then, NDSU pays \$87,592 of annual building rent to the Foundation for use the Criminal Justice

Notes to Financial Statements

and Public Policy building next to the NDSU main campus. This rent was paid again by NDSU during the fiscal year ending June 30, 2020.

The Foundation's fiscal year end is December 31, NDSU's 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 2020.

Note 18 – Functional Expense Classification

The System reports operating expenses using the “natural classification” on the Statement of Revenues, Expenses and Changes in Net Position. Operating expenses for the year ending June 30, 2020, using the “functional classification” are presented below:

Operating Expenses	
Instruction	\$ 95,175,503
Academic Support	30,678,376
Student Services	37,435,934
Institutional Support	15,401,719
Physical Plant	29,442,457
Scholarships & Fellowships	24,134,179
Auxiliary Services	33,816,919
Public Service	32,138,218
Research	89,699,469
Depreciation & Amortization	26,345,039
Total	<u>\$ 414,267,813</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, 2020, amounted to \$2.0 million.

Notes to Financial Statements

Future minimum lease payments at June 30, 2020:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2021	\$ 1,765,866
2022	1,510,103
2023	1,327,421
2024	257,375
2025	267,375
2026 - 2030	233,375
Total	<u>\$ 5,361,515</u>

Note 20 – Contingencies

Amounts received and expended by the System 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 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.

Note 21 – Risk Management

The 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 programs have been established to address some of these risks and loss exposures.

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, boards and commissions. The contributions are calculated by an actuary based on various factors, including the agency's loss history and number of full-time employees.

Notes to Financial Statements

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 – Subsequent Events

As of February 6, 2021 there are no subsequent events for North Dakota State University.

North Dakota State University
Supplementary Information - Component Units
Statement of Financial Position
For Year Ended June 30, 2020

FASB BASIS

	Major Component Units	
	NDSU Foundation and Alumni Association December 31, 2019	NDSU Research & Technology Park June 30, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 34,273,163	\$ 1,764,291
Short-term investments	26,559,681	
Accounts receivable, net	731,982	253,043
Receivable from primary institution	99,720	
Notes Receivable, net		2,800,000
Unconditional promises to give, net	14,517,528	
Current Portion of net investment in direct financing leases		1,216,210
Other assets	366,531	500,000
Total Current Assets	\$ 76,548,605	\$ 6,533,544
Noncurrent Assets		
Restricted cash and cash equivalents	\$ 981,403	
Investments, net of current portion	255,008,433	
Real estate and equipment held for investment, net	30,074,278	
Other long-term investments	15,955,680	
Contracts for deed and notes receivable,	711,940	
Long term pledges receivable	42,830,161	
Notes Receivable, net		\$ 8,585,000
Net investment in direct financing leases, net of current portion		11,332,752
Other noncurrent assets	1,112,398	415,726
Capital assets, net	3,305,821	6,252,879
Total Noncurrent Assets	\$ 349,980,114	\$ 26,586,357
Total Assets	\$ 426,528,719	\$ 33,119,901

Statement of Financial Position - Continued on Next Page

Statement of Financial Position - Continued

FASB BASIS

	Major Component Units	
	NDSU Development Foundation	NDSU Research & Technology Park
	December 31, 2019	June 30, 2020
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 2,140,050	\$ 248,054
Payable to primary institution		1,090
Current portion of gifts annuities and life income agreements	660,284	
Deferred revenue		31,755
Other current liabilities	217,463	
Long-term liabilities—current portion	1,102,835	4,189,187
Total Current Liabilities	\$ 4,120,632	\$ 4,470,086
Noncurrent Liabilities		
Long-term portion of split-interest agreeen	6,314,921	
Other noncurrent liabilities		207,531
Long-term liabilities	22,303,770	20,962,109
Total Noncurrent Liabilities	\$ 28,618,691	\$ 21,169,640
Total Liabilities	\$ 32,739,323	\$ 25,639,726
NET POSITION		
With donor restriction	\$ 31,992,447	\$ 7,330,175
Without donor restriction	361,796,949	150,000
Total Net Position	\$ 393,789,396	\$ 7,480,175

North Dakota State University
Supplementary Information - Component Units
Statement of Activities
For Year Ended June 30, 2020

FASB BASIS

	Major Component Units	
	NDSU	
	Foundation and Alumni Association	NDSU Research & Technology Park
	December 31, 2019	June 30, 2020
Support and revenue		
Gifts and contributions	\$ 87,741,630	\$ 369,068
Investment Income	12,936,043	665,061
Net realized and unrealized gains (losses) on investments	23,619,651	
Program and event income		94,451
Other Income	1,537,247	911,275
Total support and revenue	\$ 125,834,571	\$ 2,039,855
Expenses		
Program Services	\$ 27,263,220	\$ 996,097
Supporting Services	5,224,125	828,046
Fund raising expense	3,877,226	
Total expenses	\$ 36,364,571	\$ 1,824,143
Change in Net Assets	\$ 89,470,000	\$ 215,712
Net Position, Beginning of Year	\$ 304,319,396	\$ 7,264,463
Net Position, End of Year	\$ 393,789,396	\$ 7,480,175